Low Cost Airlines - A New Customer Relationship? An Analysis of Service Quality, Service Satisfaction and Customer Loyalty in a Low Cost Setting

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ABSTRACT. Many organizations are now paying close attention in evaluating and implementing marketing strategies with the specific aim of improving customer retention. While extensive literature has focused on the link between service quality, satisfaction, and loyalty, little research has been conducted on examining these three constructs in the context of low cost airlines. Using questionnaire data collected at two European airports, the results suggest that though both the service quality and customer satisfaction have positive influence on repurchase intentions, customer satisfaction is a much stronger driver in influencing repurchase loyalty than service quality, which implies that these constructs interact in a different manner in a low cost setting.

KEYWORDS. Low cost airlines, service quality, customer satisfaction, loyalty

INTRODUCTION

In today's globally competitive marketplace, the nurturing of customer loyalty reigns undeniable as the most important goal for all enterprises, with repeated use or purchase as one of the primary indicators of customer satisfaction and loyalty. The economic paradigm shift from industrial to customer-value has made service an essential part of organizations' efforts to improve profitability. Global developed economies have become primarily service economies, in which virtually all organizations compete to some degree on the basis of service (Caruana 2002). Service based companies are consequently compelled to provide excellent service in order to thrive in increasingly competitive domestic and global marketplaces. Service quality has become the significant strategic value adding/enhancing driver in achieving a genuine and sustainable competitive advantage in a global marketplace. For a long time, quality and customer satisfaction have been accepted as playing a vital function for success and survival in the current environment. As a result, substantial research has been conducted on these two concepts. In particular, quality and satisfaction concepts have been linked to customer behavioural intentions such as purchase and loyalty intention by many researchers (e.g. Olsen 2002). However while service quality can act as a differentiator and source of competitive advantage, there has been a trend and increase in companies actively pursuing a strategy of commoditization (e.g. Ryanair, Aldi, Lidl), which is defined as "The process whereby product selection becomes more dependent on price than differentiating features, benefits and value-added services" (Bocij et. al. 2006).

Described by Porter (1985) as “Under which a firm offers a relatively low price to stimulate demand and gain market share”, the term “no frills” has often been associated to many companies that follow this business model. The term is used to describe a service where the non-essential features are removed to reduce costs and pass on the saving to the customer. In all parts of the globe, the threat from disruptive, low-cost competitors is growing. Such companies offer products and services at radically lower prices than established businesses, often by leveraging the forces of deregulation, globalisation, and technological innovations. In the US, in the 1990s, the first price warriors, such as Dell, Southwest Airlines, and Wal-Mart, had taken considerable market share from existing incumbents by following this low cost strategy. In recent times, there has been an explosion of low-cost competitors taking incumbents by surprise, for example, Direct Line Insurance in the UK, online stock brokers E*Trade in the U.S, Sweden’s IKEA, Germany’s Aldi supermarkets, and Ireland's Ryanair. These and other low-cost organizations are changing the nature of competition in the 21st century.

Many in business have questioned the sustainability of low cost entrants. For these organizations and type of business model to thrive and succeed, they need to use several tactics. Primarily, their focus is on just one consumer segment; secondly, they deliver the basic product better than rivals do; and finally, they are extremely efficient in their operations in order to keep costs low for consumers. The financial metrics and calculations of these business models are not the same as those traditional businesses. These organizations drive much smaller gross margins but their business models turn those into greater operating margins. These margins are inflated by the organizations’ higher-than-average asset turnover ratios, which in turn result in impressive

returns on assets. As a result of these returns and growth rates, market capitalizations of many upstarts are greater than industry leaders.

The emergence and growth of low cost competitors is in tandem with the growth in the commoditization of goods – a process whereby goods that have economic value and that are unique in terms of attributes or distinguishing features have become simple commodities for consumers. However, while Rosenbloom and Dupuis (1994) examined a potential new paradigm emerging in the retail sector – organizations with low price/low operating costs offering high levels of service quality, other research suggests that low-cost players modify customer behavior permanently by getting people to accept fewer benefits and levels of service at lower prices (Boru 2006). In addition, low-price competitors are helped by the fact that consumers are becoming cynical about brands, more informed as a result of the Internet, and more open to value-for-money offers. There is a trade off when customers use a low cost service – that of the price saving against the bundled service quality improvements.

While extensive literature has focused on the link between service quality, satisfaction and loyalty (Cronin, Brady, and Hult 2000; Olsen 2002), little research has been conducted on linking and examining the impact of low cost business models to these three constructs. While the rise of the low cost business model has led to a plethora of organizations offering low cost substitutes and in turn low level of services, anecdotal evidence suggests that a high level of dissatisfaction among end users exists. However, paradoxically, it appears that loyalty amongst customers remains high for the products and services they offer, despite the reduced level of quality and satisfaction among customers. Therefore, this paper aims to examine and challenge

the widely held belief that an increase in customer loyalty is positively impacted by service quality and satisfaction in the context of a low cost business model.

Research Context: Low Cost Airlines

The airline industry has generated great research interests recently (e.g. Oyewole, Sankaran, and Choudhury 2008). The European airline industry is a dynamic industry that changes in accordance with European macro environmental influences. The dawn of the new millennium posed serious challenges for the European airline industry. From 2001 to 2003, the aviation industry was rocked by terrorism, war in Iraq, the outbreak of SARS, an increase in oil prices and a general economic downturn. Dropping in passenger numbers has placed extra pressure on yields and profit margins. The large majority of traditional airlines suffered heavy losses while a new breed of entrants, low cost carriers (LCC's) enjoyed growth and profitability (Alamdari and Fagan 2005). It is therefore interesting to investigate the links between service quality, customer satisfaction and repurchase loyalty in the low cost airline industry.

LITERATURE REVIEW

Service quality, customer satisfaction and customer loyalty research has occupied a central position in service marketing research during the past two decades. Initial research focused on the dimensions and measurement of service quality. Once consensus on the issues relating to the measurement of quality were gained, more complex conceptual relationships were considered and how in turn these relationships act to drive behavioural intention (Cronin, Brady, and Hult 2000). These studies have allowed us to gain a better understanding between the three concepts

and have resulted in an emerging consensus as to their interrelationships – the belief that an improvement in the quality of a service encounter leads to an increase in satisfaction which in turn leads directly to favourable outcomes and increased loyalty.

Service Quality

Service quality has received a great deal of consideration in the literature because of its sustainability as a source of competitive advantage. A multitude of definitions of perceived service quality exists with the general view that it is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Grönroos 1984). Perceived service quality is therefore viewed as the degree and direction of discrepancy between customers' perceptions and expectations (Parasuraman et. al. 2006). Therefore service quality is a continuing construct that includes quality performance in all activities undertaken by management and employees. Customers are the single judges of service quality. If they perceive it to be bad service, then it is. Thus, if the perception is higher than expectation, then the service is said to be of high quality. Likewise, when expectation is higher than perception, the service is said to be of low quality. From a customer's point of view, quality is viewed as being two-dimensional, consisting of "output" and "process" quality. Grönroos (1984) further highlights the function of technical (or output) quality (what the service provider delivers during the service provision) and functional (or process) quality (how the service employee provides the service.) as taking place prior to, and resulting in, outcome quality.

There is a general view that service quality makes a significant contribution towards service differentiation, positioning and branding. Often organizations that search for the most effective

ways to include the best service methods and processes are likely to be winners in the long term in terms of favourable customer perceptions. It is generally accepted that companies that surpass in relation to their competitors are able to build a solid foundation for customer loyalty based on quality service. Many authors present empirical studies demonstrating a positive link between customer service improvements and customer satisfaction, customer loyalty and profitability (e.g. Mittal and Kamakura 2001).

Customer Satisfaction

Satisfaction has been considered by many as one of the most important issues for marketers and customer researchers over the past few decades (Oliver 1997). Nevertheless, agreement on a definition of satisfaction has not been reached during this time. However, all agree that the concept of satisfaction suggests the basic presence of a goal that the consumer wants to attain. Tse and Wilton (1988) define satisfaction as: "The consumer's response to the evaluation of the perceived discrepancy between prior expectations (or some norm of performance) and the actual performance of the product as perceived after its consumption." Although the definition is similar to the definition of service quality, a number of differences can be made between them. Primarily, customer satisfaction is a post-decision customer experience while quality is not (Boulding *et al.* 1993; Cronin and Taylor 1994; Oliver 1980). Expectations are also defined differently in satisfaction and quality literature (Bebko, Sciulli, and Garg 2006). In satisfaction expectations reflect anticipated performance (Churchill and Suprenant 1982). However, in the service quality literature, expectations are conceptualized as a normative standard of future want (Boulding et. al.1993). These model standards represent the customer's needs and wants and remain unaltered by marketing and competitive factors. Therefore, these expectations are more

constant and can be thought of as representing the service the market oriented provider must constantly deliver (Zeithaml et. al. 1993).

Service Loyalty

It has been suggested that maintaining customer loyalty is one of the essential elements determining a company's success or failure and as a result many organizations strive to build good relationship with their customers. As well as this, overriding evidence suggests that providing superior quality service is a crucial aspect in improving profitability. On the contrary, poor service quality is one of the main reasons why customers switch to competitors. Consequently, the long-term success of a service organization is essentially determined by its ability to acquire and maintain a large and loyal customer base. Developing and maintaining customer loyalty or creating long-term relationship with customers is the key to survival and growth of service firms. The relationship between customer loyalty and service quality has been widely investigated (Oliver 1980; Bearden and Teel 1983) and many found strong positive relationship between the two (Anderson and Sullivan 1993; Boulding et. al. 1993).

The loyalty construct has evolved considerably over the last decade. Originally, the focus of loyalty was on brand and in particular to tangible goods. Over the years the focus continued to expand, taking into consideration the wider perspective of marketing to include other types of loyalty. However, there have been few studies that looked at customer loyalty of services (Oliver 1997). Gremler and Brown (1996) extended the concept of loyalty to intangible products, and their definition of service loyalty incorporates the three specific components of loyalty: the purchase, attitude and cognition. They define service loyalty as: "The degree to which a

customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists" (Gremler and Brown 1996). Oliver (1997) defined loyalty as "a deeply held commitment to re-buy or re-patronise a preferred product/service consistently in the future despite situational influences."

In the past there have been many studies that have focused on identifying the advantages that customer loyalty delivers to service organizations. Some of the benefits identified include the cost of attracting new customers and consist of positive word of mouth, increases in the number of purchases, and increases in the value of purchases. Furthermore, it was identified that loyal customers can be useful to better service quality, as they more often than not; they are willing to communicate with the company in a positive way.

HYPOTHESIS DEVELOPMENT

The current study examines the nature and strength of relationship between service quality, customer satisfaction and re-purchase intentions in the context of low cost airlines. Based on the seminal work of Parasuraman, Zeithaml and Berry (1994), service quality was conceptualized as the differences between expectation and performance. Customer satisfaction was conceptualized as the customer's cumulative post-purchase affective evaluation based on the most recent services consumption experience. Lastly, the re-purchase intention construct has been conceptualized as a customer's likelihood of using low cost airlines for their next flight.

Research suggests that there is a direct link between service quality and behavioural intentions (Bitner, 1990). Significant focus has been placed on the influence of service quality in determining repeat purchase and customer loyalty (Jones and Farquhar 2003). Bolton (1998) indicates that service quality influences a customer's subsequent behaviour, intentions and preferences. When a customer chooses a provider that provides service quality that meets or exceeds his or her expectations, they are more likely to choose the same provider again. Cronin and Taylor (1994) also discovered that service quality has an important effect on repurchase intentions. Subsequent studies also support the premise that repurchase intentions are positively influenced by service quality, these include Cronin and Taylor (1992, 1994), Cronin, Brady, and Hult (2000), and Choi et. al. (2004). Hence, the hypotheses below can be put forward:

H1: Service quality is positively related to repurchase loyalty in a low cost setting.

A number of studies support the link between customer satisfaction and behavioural intentions (Taylor and Baker 1994). Bearden and Teel (1983) contend that "customer satisfaction is important to the marketer because it is generally assumed to be a significant determinant of repeat sales, positive word of mouth, and customer loyalty". Anderson and Sullivan (1993) also maintain that the more satisfied customers are, the greater their retention. Ranaweera and Prabhu (2003) also uphold the view that customer satisfaction has a significant and positive effect on customer retention. An extensive variety of studies found the levels of customer satisfaction does influence the level of repurchase intentions. On the basis of the above, it can then be hypothesised that:

H2: Customer satisfaction is positively related to repurchase loyalty in a low cost setting.

Service quality and customer satisfaction are extensively recognized as antecedents of repurchase intentions. Ravald and Gronroos (1996) reveal that customer satisfaction is a better predictor of intentions to repurchase than service quality. This view is also supported by Cronin and Taylor (1992). They found that there is a stronger relationship between customer satisfaction and repurchase intentions than the relationship between service quality and repurchase intentions. Parasuraman, Zeithaml and Berry (1994) also support the view that customer satisfaction is statistically more significant when service quality and customer satisfaction are analyzed against repurchase intentions. This leads to the following hypothesis:

H3: Customer satisfaction is a stronger predictor of customer's repurchases loyalty than service quality.

METHODOLOGY

Development of Measures

Five-point Likert scales ranging from 1 strongly disagree to 5 strongly agree were employed to seek respondent's agreement on seven statements on service quality, six statements on service satisfaction and four statements on customer loyalty. These customized scales were generated solely by the authors and as much as possible took into account the role technical and functional quality plays in service delivery. Considerable attention was given to developing clear, unambiguous questions. Three pre-survey questions were also asked prior to the main administering of the survey to ensure that respondents that did not fly with a low cost airline could be identified and removed from the analysis.

Sample and Data Collection

The questionnaires were self-administered at Dublin and Manchester airports in 2009. The respondents were informed that their participation was on a voluntary basis and all information provided would be kept private and confidential. The researchers then briefly explained the nature and requirement of the survey before the respondent filled in the questionnaire. Pilot testing was conducted using a small sample of 15 passengers, who checked for any ambiguities and confusion in the first draft of the questionnaire. Two questions were amended, one from service quality and one from satisfaction as feedback from the convenience sample indicated a slight misunderstanding. In total 207 questionnaires were distributed with 61 questionnaires being completed terminal side in Dublin and 23 being completed terminal side in Manchester. Sixty-five questionnaires were completed airside in Dublin with 58 being completed airside in Manchester. In total 24 questionnaires were removed from the analysis as multiple answers were circled in the questionnaire thus leaving a response rate of 83%. From the 183 valid respondents, 54.1% were male, 22% were aged between 26-34 and 31% aged between 35-45; 56% of respondents were traveling on business; 30.6% travelled between once every two months and once a month.

RESULTS

The data analysis was conducted in two stages. First, as the constructs service quality, customer satisfaction and repurchase loyalty consisted of a large number of items, factor and reliability analyses were conducted. The factor scores were saved for the second stage of multi-linear regression analyses. This method has been used in other marketing studies (e.g. Bradley,

Meyer, Gao 2006). Exploratory factor analyses (EFA) were conducted through principle component analysis with varimax rotation using SPSS 17. EFA was performed on each of the constructs: service quality, customer satisfaction and repurchase loyalty. Table 1 presents the results of the factor analysis with varimax rotation, Cronbach's alpha, and total variance explained. A factor analysis of the seven items used to measure service quality produced three factors. A factor analysis of the six customer satisfaction items produced two factors, and finally the four repurchase loyalty items all loaded on one factor. Cronbach's alpha was calculated to test the reliability of the service quality, service satisfaction and repurchase loyalty scales. The coefficient alphas ranged from 0.754 (service quality), 0.715 (service satisfaction) to 0.872 (service loyalty), all exceed the lower limit of 0.70.

---------- Insert Table 1 Here ----------

Hypothesis Testing

Before performing a multiple regression analysis, the issue of multicollinearity was considered. One commonly used measure of multicollinearity is the variance inflation factor (VIF) with a cut-off threshold of 10. The multicollinearity diagnostic tests for the regression equation showed that the largest VIF value was 1.126, which was substantially below the 10 benchmark. Thus, multicollinearity is not a concern here.

A multilinear regression was conducted with the saved factor scores for repurchase loyalty as the dependent variable and the saved factor scores for service quality and customer satisfaction as independent variables. .The regression results are presented in Table 2. There are significant and positive relationships between two out of three service quality dimensions and repurchase

loyalty (Factor 1 b=0.108, p<0.05, Factor 2 b=0.102, p<0.05). Factor 3 of the service quality does not present a significant relationship (Factor 3 b=-0.020, p>0.05). Therefore, Thus H1 is partially supported. Hypothesis H2 is strongly supported as the two dimensions of the customer satisfaction construct are significantly and positively related to repurchase loyalty (Factor 1 b=0.693, p<0.01; Factor 2 b=0.309, p<0.01). Therefore, service satisfaction does positively affect repurchase intention in a low cost setting. All the coefficients of the customer satisfaction dimensions are much higher than the coefficients of the service quality dimensions (0.693 and 0.309 vs. 0.108, 0.102, and -0.020). This supports the hypothesis H3 that customer satisfaction is a stronger predictor of customer repurchase loyalty than service quality. This result supports Allen, Machleit and Kleine's (1992) argument that emotions act as a better predictor of behavior than cognition. Parasuraman, Zeithaml and Berry (1994) also point out that customer satisfaction is regularly more statistically significant, and more often than not achieve a greater level of statistical significance compared to service quality. However, the result differs from Choi *et al*.'s (2004) study in a health-care context, which found that service quality appears as a more important determinant of behavioral intentions. However, a review by Dabholkar (1995) suggests that the relationship is situation-specific and therefore depends on the context of the service encountered.

---------- Insert Table 2 Here ----------

CONCLUSION AND RECOMMENDATIONS

The overall findings of this study confirm and support those theories in existent services management literature. The findings are similar and support Cronin and Taylor's (1992) findings and more recently Chandrashekaran et al (2007) in the long-standing belief that an improvement in the quality of a service encounter leads to an increase in satisfaction, which in turn leads directly to favourable outcomes and thus increased loyalty. This study provides evidence of the direct effect of service quality and satisfaction on repatronage intention as suggested by the literature with satisfaction emerging as a stronger predictor of repatronage intentions in a low cost setting. While significant research has been conducted in this area (e.g. Olsen 2002), limited studies have examined this in an emerging low cost sector. The results show that service quality and satisfaction are key drivers of loyalty regardless of the low cost airline setting. Customers perceive the level of service (either technical or functional quality) they are receiving from low cost airlines as good. From this we can we purport that customers' perceptions of low cost service quality is higher than expectation thus leading to a high level of service.

Managerial Implication

There are a number of marketing and managerial implications that can be drawn from this study. The results reveal satisfaction is more influential than service quality in driving customer retention. From a managerial perspective this implies that further effort is required to improve the service quality levels within the context of low cost airlines. There maybe a requirement for frontline staff to be trained to be more responsive and sensitive to customers needs. While the technical level of the service being provided is perceived to be high an opportunity for low cost

airlines to enhance the functional service quality exists. Management must take into consideration the fact that research suggests that low-cost players modify customer behavior permanently by getting people to accept fewer benefits and levels of service at lower prices. Customer satisfaction is also very crucial for marketing planning since satisfaction does influence customers repurchase intentions. Consequently, marketers should look into the factors that would affect customer satisfaction level (availability, routes, price etc.). In addition, as customer expectations are changing over time, practitioners are advised to measure their customer expectation and satisfaction regularly.

Limitations and Further Research

This study examined the relationship between service quality, customer satisfaction and loyalty. However other antecedents or consequences, such as price fairness, price consideration, brand reputation or confidence, have not been considered. The incorporation of these factors into further research for low cost airlines could prove useful especially price fairness as considerable work has been conducted on this subject (Wirtz and Kimes 2007) and its effect on satisfaction and repeat purchases. From a methodological perspective, data was collected from two locations with many of the respondents travelling on business. It would be interesting to replicate this analysis purely on 'leisure' travellers or indeed in the context of package holiday flights. Furthermore, the majority respondents were from Ireland and the UK. Potentially, respondents from different geographical regions would hold different beliefs into the relationship between service quality, satisfaction and loyalty.

The relationship between service quality and satisfaction and possible relationships toward loyalty have been questioned in this paper. Future research should test and compare different

quality-satisfaction-loyalty models. Replication is another area that warrants further analysis. The reported study should be replicated with additional samples in different settings. A further stream of research could be to examine how these relationships interact when compared with other services or tangible products in different industries. One possibility could be an investigation into the retail sector where over the last number of years a number of low cost challenger brands (e.g. Aldi, Lidi) have shaken the status quo in the retail sector. A further interesting area of study would be to examine personal characteristics and its effects on customer's perceptions of low cost airlines. By examining age, gender, and social class, a clearer understanding of what low cost airlines customers look like could be extrapolated. A further topic of interest to examine would be other organizations that have been positively impacted by the forces of deregulation. One area that has seen tremendous growth as a result of a changing landscape is the increase in competition within the Irish utilities arena. It would be worthwhile to examine the relationships between the three constructs of service quality, satisfaction and loyalty and if these relationships mirror those of other recently deregulated industries.

In sum, customer loyalty is undeniable a very important goal for all organizations in today's global marketplace. In order to thrive, organizations must ensure repeat customer purchases. Indeed substantial studies suggest that service quality and satisfaction play an imperative and positive role in customer behavioural intentions, such as loyalty. This research suggests that this is similar in the context of a low cost setting. Furthermore, it was found that satisfaction has a stronger positive impact on repurchase intentions than service quality, which implies that these constructs interact in a different manner in a low cost setting.

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Table 1: Factor Loadings: service quality, customer satisfaction and repurchase loyalty

Service quality	**Factor 1**	**Factor 2**	**Factor 3**	**Cronbach's alpha**	**Total variance explained**
				0.754	57.933%
The level of service matches what I expected.	0.777				
Low cost airlines provide a prompt service to customers.	0.748				
Customer service problems are handled with the customer in mind.		0.409			
Employees are courteous, polite, and respectful.		0.671			
Overall, the level of service is high.		0.816			
My flight will depart and arrive on schedule.			0.877		
My bags will be delivered without any problems i.e. lost, damaged.			0.557		
Customer satisfaction	**Factor 1**	**Factor 2**		**0.715**	**64.839%**
My choice to purchase this service was a wise one.	0.737				
Compared to other airlines I've flown with I	0.820				

am equally satisfied.			
I think that I did the right thing when I purchased this service.	0.579		
I am satisfied with low cost airlines with regard to availability/routes/schedule.	0.866		
I would rate my satisfaction with regard to flying with low cost airlines as high.	0.844		
Based on all my experiences, I am very satisfied.	0.762		
Loyalty	**Factor 1**	**0.872**	**72.748%**
Low cost airlines offer value for money.	0.897		
I will use a low cost airline in the near future.	0.916		
I would recommend a low cost airline to a friend or colleague.	0.749		
I would use a low cost airline in favor of a full service airline.	0.839		

Table 2: Regression Analysis

Independent variables	**Dependent variable : Repurchase loyalty**		
	Standardized Coefficients	**t-value**	**Sig.**
Service quality (H1)			
- Factor 1	0.108	2.245	0.026**
- Factor 2	0.102	2.031	0.044**
- Factor 3	-0.020	-0.413	0.680
Customer satisfaction (H2)			
- Factor 1	0.693	14.268	0.000***
- Factor 2	0.309	6.079	0.000***
Model Summary			
R^2	0.595		
Adjusted R^2	0.583		
F statistic	51.983		
Sig.	0.000***		
Sample	183		
** p<0.05 *** p<0.01			