PRICE, PERCEIVED VALUE, CUSTOMER SATISFACTION AND FAVOURABLE REPEAT PURCHASE INTENTION OF MALAYSIAN LOW COST AIRLINES

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8 March 2013

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ABSTRACT

Before the emergence of the low cost airlines, air travel is a luxury that only the corporate, business and upper-middle income segments could afford. The most significant change brought by the Malaysian low cost airlines is the creation of new market segments. The Malaysian low cost airlines have converted the previously non user groups including segments of individuals who could not afford air travel before into existing customers. Hence, the existing domestic customers of the Malaysian low cost airlines are presumed to be different from the leisure air travellers on full service airlines. The research objective of this study is to explain low price, perceived value, satisfaction and favourable repeat purchase intention of the Malaysian low cost airlines resulting from the existing domestic customers' experiences. Qualitative research approach was chosen as the research methodology. This study employed purposive sampling in order to obtain rich information cases. Data were collected from 22 semi-structured interview sessions and 11 complete observer observations. This research has found that lower airfare means low level of service and a mode of transport. An notable finding is that the airfare means "value-for-money", only if the amount paid is either zero or extremely low during the airlines' price promotional period. Findings indicated that the existing domestic customers of Malaysian low cost airlines weighed perceived benefits against perceived costs of travelling on low cost airlines simultaneously they also perceived functional value, relative value and social value. Interestingly, findings revealed that customer satisfaction is low expectation towards service performance and dissatisfaction is non durable. This research also found that favourable repeat purchase intention of air travel on the low cost airlines are due to several key influential factors including price, price and flight destination, price and perceived value, satisfaction, price and satisfaction, and price, perceived value and satisfaction.

Keywords: price, perceived value, customer satisfaction, Malaysian low cost airlines

ABSTRAK

HARGA, TANGGAPAN NILAI, KEPUASAN PELANGGAN DAN MINAT PEMBELIAN BERULANG PENERBANGAN TAMBANG RENDAH MALAYSIA

Sebelum kemunculan penerbangan tambang rendah, penerbangan udara adalah suatu kemewahan yang hanya mampu digunakan oleh segmen korporat, peniaga dan berpendapatan pertengahan atasan. Perubahan signifikan yang diwujudkan oleh penerbangan tambang rendah Malaysia ialah segmen pasaran baru. Penerbangan tambang rendah Malaysia menjadikan segmen individu yang tidak mampu penerbangan udara dahulu kepada pelanggan semasa. Justeru itu, pelanggan semasa domestik penerbangan tambang rendah Malaysia diandai berbeza daripada mereka yang menggunakan penerbangan udara perkhidmatan penuh. Objektif kajian ini adalah untuk menjelaskan makna harga rendah, tanggapan nilai, kepuasan dan niat pembelian berulang penerbangan tambang rendah Malaysia berasaskan pengalaman pelanggan semasa domestik. Pendekatan kajian kualitatif dipilih sebagai methodologi kajian. Kajian ini menggunakan persampelan "purposive" untuk mendapatkan kes informasi yang padat. Data dikumpul daripada 22 sesi temuduga separa-struktur dan 11 pemerhatian sempurna. Hasil kajian menunjukkan tambang penerbangan rendah bermakna tahap perkhidmatan yang rendah dan sejenis pengangkutan asas. Suatu hasil kajian menarik adalah tambang dianggap bernilai untuk wang dibayar jika jumlah yang dibayar ialah kosong atau yang terendah iaitu semasa promosi harga syarikat penerbangan. Hasil kajian menunjukkan pelanggan semasa domestik penerbangan tambang rendah Malaysia mempertimbangkan tanggapan faedah dengan tanggapan kos penggunaan penerbangan tambang rendah, mereka juga mempunyai tanggapan nilai fungsi, nilai relatif dan nilai sosial. Suatu hasil kajian lain yang menarik adalah kepuasan pelanggan ialah jangkaan rendah terhadap prestasi perkhidmatan dan perasaan ketidakpuasan tersebut tidak berkekalan. Niat pembelian berulang perkhidmatan perjalanan udara daripada penerbangan tambang rendah Malaysia adalah disebabkan oleh harga, harga dan destinasi penerbangan, harga dan tanggapan nilai, kepuasan perkhidmatan, harga, tanggapan nilai dan kepuasan perkhidmatan.

Kata kunci: harga, tanggapan nilai, kepuasan pelanggan, penerbangan tambang rendah Malaysia

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CHAPTER 1

INTRODUCTION

1.0 Chapter Introduction

This chapter establishes the background, context and significance of this research. It begins with discussion on the importance of air transport in spurring the tourism growth of a country. The chapter proceeds to discuss the deregulation and liberalisation that lead to the emergence of low cost airlines in the United States of America, Europe and Southeast Asia. It includes a deliberation on the increasing competitiveness of and competition among the low cost airlines in the United States of America, Europe and Southeast Asia. Besides, it discusses the contribution of low cost airlines in creating new market segments. As this is an introductory chapter, it explains the airline business models and the differences between full service and low cost airlines. It also includes a detailed discussion on the background of the current industry, market segments and market situation of the low cost aviation industry in Malaysia. Additionally, this chapter presents the research gaps, problem statement, research questions and research objectives. Subsequently, it points out the significance of research, the scope of research as well as the structure of this thesis.

1.1 An Overview of the Emergence of Low Cost Airlines

Air transport is crucial to propel the growth of international tourism to a destination. The availability of low cost airlines offering cheaper air transport has stimulated the number of international tourists' arrivals and opened new tourist market to tourism destinations. Tourism, particularly the growth of this industry in countries around the world largely depends on if the tourism destination is easily and economically accessible by any modes of transport (Bowen, 2000; Prideaux, 2000). The presence, availability and accessibility of air transport spur the growth of tourism destinations in Asia, Spain, Africa and Pacific Islands and drive the development of new tourism destinations (Prideaux, 2000). The accessibility of a tourism destination by various airlines boosts its ability to attract all categories of air travellers including leisure travellers. To illustrate, Singapore being an international airline hub and its adoption of "open skies" policy has made this "Garden City" easily accessible to many international airlines, spurring its tourism industry (Bowen, 2000). The economy of Singapore thrives on tourism dollars (Bowen, 2000). A study conducted in Sabah, a Malaysian state, located in the island of Borneo revealed that the domestic tour operators had unanimously agreed that accessibility of airlines is the most crucial factor to the tourism development in the state (Chan and Yeoh, 2001). Similarly, the number of international tourists to Cairns, Australia increased with the accessibility of direct international flights to the destination (Prideaux, 2000).

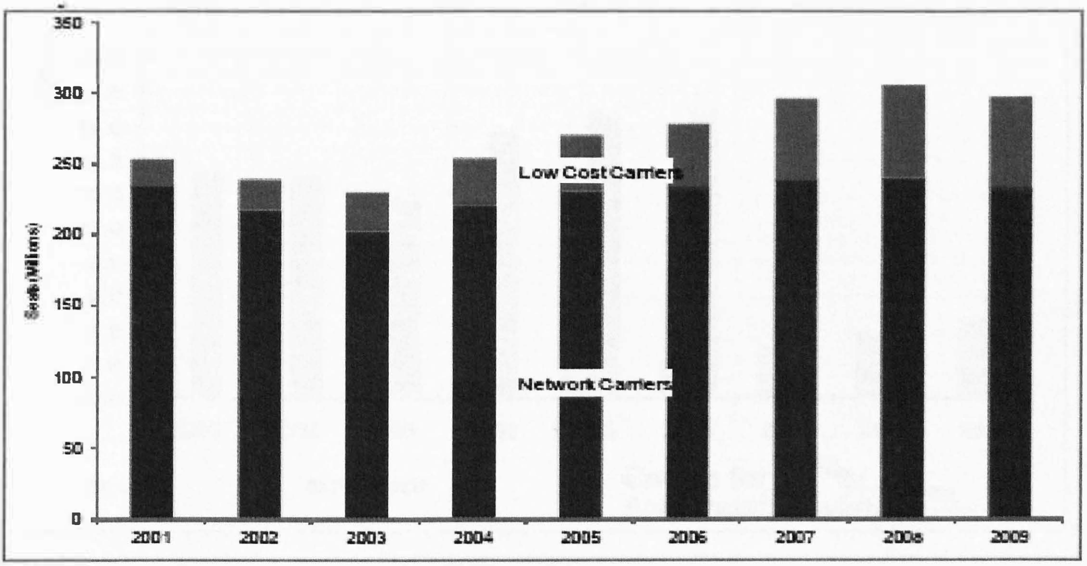
In the United States of America, Europe and Southeast Asia, air travel was once monopolised by state owned airlines until the emergence of low cost airlines (Bowen, 2000; Hooper, 2005; Horsch, 2003; Mason and Alamdari, 2007). The national flag carrier is either wholly or partially owned by the government, representing the country's pride to world (Horsch, 2003). The national carrier is a full-service airline. All the international and domestic routes were once dominated by the national carriers (Bowen, 2000). Full service airlines charge a high airfare to cover their high operating costs (Horsch, 2003). Accordingly, air travel was once viewed as a luxurious service that could only be afforded by business, corporate and higher social class travellers. Thus, the size of the air travel market is small; limited to high and middle-higher income market segments, and the aviation industry is highly competitive. The full service airlines compete intensely to retain their existing customers and to increase their market share at the expense of their competitors in a limited-sized and saturated air travel market (Franke, 2007). The deregulation, liberalization and intense competition of the aviation industry in the United States of America (Rhoades and Waguespack Jr., 2005), Europe (Mason and Alamdari, 2007; Gilbert *et al.*, 2001) and Southeast Asia (Bowen, 2000) has created the opportunity to launch the new low cost airline business model (Jiang, 2007).

The emergence of the low cost airlines as a result of the deregulation and liberalisation exercise has revolutionised the aviation industry that was once dominated by state owned, full service airlines (Bowen 2000; Jiang, 2007). In the United States of America, the "low cost airline" term and business model was introduced by Pacific Southwest Airlines in United States of America in year 1949 (Grotte, 2005). However, it was not until the year 1971 that the concept of "low cost carrier" was made known by the renowned Southwest Airlines to the United States of America and the world (Grotte, 2005). With the deregulation of the aviation industry in the United States of America since year 1978, more than 200 low cost airlines with a similar business model as Southwest Airlines have emerged (Rhoades and Waguespack Jr., 2005). However, not all the low cost airlines in the United States of America were able to sustain and survive as they were unable to cope with their operating costs with their low airfare strategy to attract customers (Rhoades and Waguespack Jr., 2005). Southwest Airlines remains the most prominent and profitable low cost airline in the United States of America (Rhoades and Waguespack Jr., 2005). Over in the European continent, the deregulation and liberalization of the aviation industry became fully effective in April 1997 (Piga *et al.*, 2001). The pioneer and largest low cost airline in Europe is Irish airline, Ryanair (Gilbert *et al.*, 2001; Jiang, 2007). Ryanair was founded in year 1985 as a full service airline (Jiang, 2007), but restructured itself as a low cost airline in the year 1991 (Gilbert *et al.*, 2001; O'Connell and Williams, 2005). Another European low cost carrier that emerged after Ryanair is easyJet which commenced operation in the year 1995 (Mason and Alamdari, 2007; Gilbert *et al.*, 2001). The low cost airlines in Southeast Asia emerged after the economic meltdown that occurred between middle of year 1997 and end of year 1998 (Hooper, 2005) when several full service airlines including Malaysia Airlines were forced to either wrap up or streamline their business as these airlines could not fill their flights with sufficient number of passengers to cover their high operating cost (Bowen, 2000).

The birth of the low cost airlines creates new market segments for the aviation industry in the United States of America, Europe and Southeast Asia (Franke, 2007, Mason and Alamdari, 2007). In addition, the lower airfare charged by the low cost airlines has a profound effect in inducing the number of leisure trips and modifying travel behaviour among the Europeans and Americans (Mason and Alamdari, 2007). Statistical evidence supported that the existence of the European low cost airlines encourages a higher number but short duration of leisure trips among the leisure travelers (Mason and Alamdari, 2007). Bieger and Wittmer (2006) found that the profile of customers travel on low cost is different from those on full service airlines.

Worldwide, the number of seat flown by low cost airlines increased from 7.7 percent of the total to 22 percent at compound annual growth rate of 16 percent between year 2001 and year 2009 (Centre for Asia Pacific Aviation, 2009), as presented in Figure 1.1. The low cost airlines create economic benefits to the different groups of stakeholders. By offering either a relatively lower or lowest airfare to air travellers, the low cost airlines stimulate both existing and latent demand thus multiplying passenger traffic for airports and destinations (Wilbur Smith Associates, 2007). To illustrate, a consultancy report prepared by Wilbur Smith Associates for Allegheny County Airport Authority, Pittsburgh in year 2007 stated that new passenger traffic for Pittsburgh International Airport increased by 80.32 percent between year 2001 and 2006 when America's low cost airlines such as Southwest Airline, JetBlue and Air Tran began service in Pittsburgh between year 2005 and year 2006. The number of passengers of low cost airlines is growing swiftly and could account for half of the air travel market of the United States of America in the near future (Rhoades and Waguespack Jr., 2005). Similarly in Europe, at the turn of the new millennium, 40 percent of the European Union air travel market was passengers of the low cost airlines (Hooper, 2005; Mason and Alamdari, 2007). It is projected that the passenger traffic of the low cost airlines will account for more than half of the intra-European Union air travel traffic in year 2015 (Mason and Alamdari, 2007).

Figure 1.1: Expansion of worldwide aviation capacity (seats) between May 2001 and May 2009



Source: Centre for Asia Pacific Aviation (2009:20)

In Southeast Asia, when most of the low cost airlines started operation in the early 2000s, they only managed to secure 1.1 percent of the Asia's air travel market (Center for Asia Pacific Aviation, 2009). However in recent years, low cost airlines have undergone tremendous growth in their passenger traffic (Refer to Figure 1.2) (Centre for Asia Pacific Aviation, 2009). In year 2009, the low cost airlines secured 15.7 percent of Asia's air travel market (Center for Asia Pacific Aviation, 2009). Derek Sadubin, chief operating officer at the Sydney-based Centre for Asia Pacific Aviation states that "*low cost airlines may account for 30 percent of Asia Pacific capacity by year 2015*" (Chan, 2010:B6). The Centre for Asia Pacific Aviation reported that the low cost airlines had helped Changi airport in Singapore grew 32 percent over the decade (Arulampalam, 2011b). Similar to their counterparts in the United States of America and Europe, the growth in the number of low cost airlines in Southeast Asia is fuelled by the Association of South East Asian Nations (ASEAN) governments attempt to deregulate and liberalise the aviation industry in the region (Hooper, 2005; Forsyth *et al.*, 2006; Jiang, 2007).

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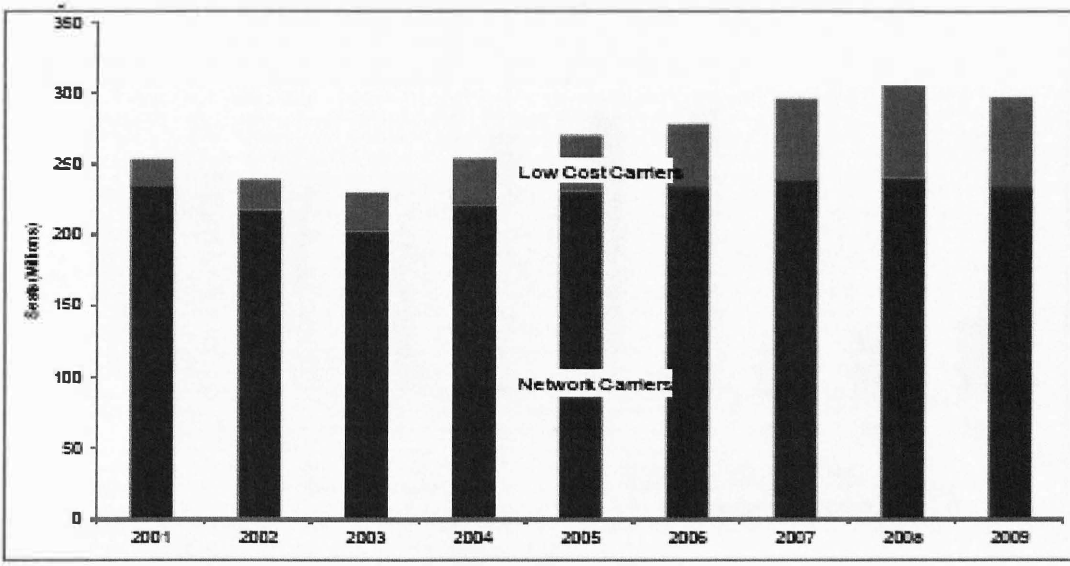

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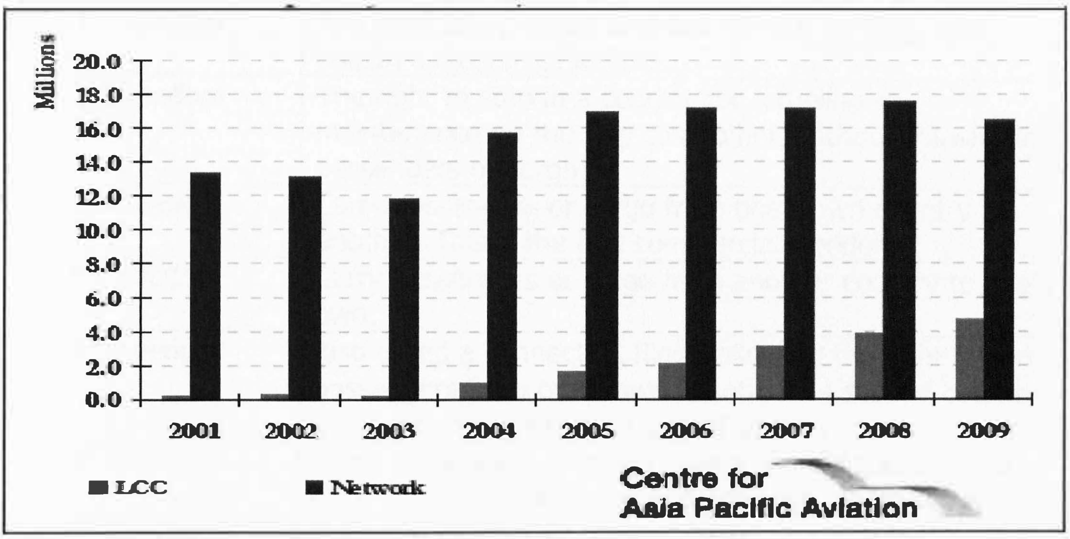
Figure 1.2: Southeast Asia: Low cost airlines and full service airlines capacity growth between year 2001 and year 2009



Source: Centre for Asia Pacific Aviation (2009:279)

The multilateral agreements on ASEAN Open Skies were signed by nine of 10 ASEAN countries (including Malaysia, Singapore, Indonesia, Brunei, the Philippines, Myanmar, Vietnam, Laos and Cambodia) with the exception of Thailand on 6 November 2008. The open skies policy grants the right of an ASEAN country's airline to enter and land in any of the countries within the grouping (Refer to Table 1.1) (Sidhu, 2008b). The ASEAN countries' airlines that freely fly in and land within the member countries bound by the bilateral open skies agreement is termed as freedom flights (Refer to Table 1.2).

Table 1.1: ASEAN roadmap for open skies

Year	Events
6 November 2008	Nine ASEAN countries excluding Thailand signs multilateral agreements on ASEAN Open Skies.
1 December 2008	The Kuala-Lumpur – Singapore air route is liberalized for unlimited 3rd and 4th freedom traffic rights.
31 December 2008 - 1 January 2009	ASEAN capital cities liberalization for 3rd and 4th freedom flights.
31 December 2010	ASEAN capital cities liberalization for 5th freedom flights.
2015	ASEAN fully liberalises its air sector.

Source: (Sidhu, 2008b:25)

Table 1.2: Freedom flights

Degree of freedom	Right grant
1st freedom	The right to fly over a country without landing, also known as technical freedom.
2nd freedom	The right to stop in a country for refueling or maintenance on the way to another, without transferring passengers or cargo.
3rd freedom	Carry passengers or cargo from one's own country to another. This is the first commercial freedom.
4th freedom	Carry passengers or cargo from another country to one's own.
5th freedom	Also called a connecting flight, allowing the right to carry passengers from one's own country to a second country and from that country to a third country.
6th freedom	Carry passengers or cargo from a second country to a third country by stopping in one's own country.
7th freedom	Carry passengers or cargo between two foreign countries without continuing service to one's own country.
8th freedom	Carry passengers or cargo between two or more points in one foreign country.
9th freedom	Carry passengers or cargo within a foreign country without continuing service to or from one's own country.

Source: (Sidhu, 2008b:25)

The liberalisation of the ASEAN skies for a unified air transport services market is a two-edged sword. Although the open skies policy produces growth opportunity in terms of increase in market size and new market development for the aviation sector in the region, but the liberalisation also means greater competition from the existing airlines and new entrants from the ASEAN grouping (Forsyth *et al.*, 2006). The deregulation and liberalisation of the aviation industry has lowered the entry barriers into the industry, thus created a favourable environment that encouraged the emergence of low cost airlines (Forsyth *et al.*, 2006) in ASEAN countries including Malaysia, Singapore, Indonesia, Thailand and the Philippines (Hooper, 2005) (Refer to Table 1.3). Although the size of the air travel market has expanded and become larger, the number of incumbents in the aviation industry has also increased (Forsyth *et al.*, 2006). The open skies policy presents greater challenge to the aviation industry players to attract new and potential customers and to retain the existing customers in their own home country and among the ASEAN member countries (Hooper, 2005).

Table 1.3: Low cost no frills airlines operating in ASEAN countries

Country	Low cost airline	Year established
Malaysia	AirAsia	December 2001
	AirAsia X	November 2007
	Firefly	April 2007
	MASwings (only flies to destinations within the Malaysian states of Sabah and Sarawak)	October 2007
	Malindo Air	March 2013
Singapore	Jetstar Asia (a joint venture of Qantas Airways, based in Singapore)	April 2004
	ValuAir	2003
	Tiger Airways	December 2003
Indonesia	Indonesia AirAsia (formerly known as AWAIR)	2004
	CitiLink (owned by state-owned Garuda Indonesia)	2001
	Lion Air	October 1999
	Wings Air	2003
	Airefata	2006
	Kartika Airlines	2001
	Riau Airlines	2002
	Batavia Air	2002
Philippines	Cebu Pacific Air	March 1996
	Spirit of Manila	2008
	PAL Express	2007
	Zest Airways	1995
	AirAsia Philippines	2011
Thailand	Thai AirAsia	2004
	Nok Air	July 2004
Vietnam	Pacific Airlines	1992
	Jetstar Pacific (a subsidiary of Jetstar, Qantas-backed low cost airline)	2008
	VietJet (a joint venture of AirAsia)	2010
Myanmar	Air Mandalay	1994

Source: Hooper (2005:336-338), Bowen (2000:30), Centre for Asia Pacific Aviation (2009:280), AirAsia Berhad (2011), FlyFirefly Sdn. Bhd. (2010), Malindo Air (2013).

1.2 Airline Business Models

Airline business models can be broadly categorised into four types namely network carriers, regional airlines, charter airlines and low cost airlines (Bieger and Wittmer, 2006). Network carriers are hub and spoke carriers. Regional airlines are full service airlines. While charter airlines can be either full service or low cost airline depending on the requirements of the tour operators who charter the flight.

Currently, there are five homegrown airlines in Malaysia, specifically four low cost airlines, AirAsia, AirAsia X, Firefly and MASwings and one full service airline, Malaysia Airlines. MASwings is a low cost airline transporting people who live in the interior area in the states of Sabah and Sarawak. Malaysia Airlines is a network, hub and spoke, full service airline. Table 1.4 shows the success factors, driving factors and perspectives of the four airline business models to offer an overview of the types of business model that exist in the air transport industry.