

The Effect of Service Quality and Price on Satisfaction and Loyalty of Customer of Commercial Flight Service Industry

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Abstract: This research looks into the influence of the service quality and price on customer's satisfaction and loyalty of commercial airline service industry. The objective of this research is to test and analyse the effect of service quality and price toward customer's satisfaction and loyalty. This research used primary data through a survey of 310 respondents. The respondents were passengers, who have been travelling by plane two times from January to March, 2012. The Structural Equation Moing (SEM) was used to analyze the data, using AMOS (Analysis of Moment Structure) version 7.0 software. The result of this research has shown that service quality influences insignificantly toward customer's satisfaction with a positive relationship and price influences insignificantly toward customer's satisfaction with a negative relationship, service quality influences insignificantly toward customer's loyalty with a negative relationship and price influences significantly toward customer's loyalty with a negative relationship. Customer satisfaction gives significant positive impact on customer loyalty. This implies that when customers feel satisfied then certainly they will also have a loyalty to the flight services industry. This research also recommended that the aviation services industries to maintain a consistent quality of service and continue to set the right price and fair, then the customers will certainly feel satisfied and be followed by loyalty to always use the services of the airline industry.

Key words: Service Quality • Price • Customer Satisfaction • Customer Loyalty

INTRODUCTION

Air transportation has faced all kinds of problems in this technology, transformation and globalization era. Companies engaged in the air transportation must face the national constraints besides foreign companies that have already started to get in Indonesia. This problem has led to increasing competition in the field of aviation service industry, especially when the government has implemented the open sky management which means that competition among airlines has started.

In line with the increase in the investor domestic aviation services industry, this is to prove that the government began to open the barrier to allow entry for aviation services industry, which also means the start of

natural selection. Before the opening of the barriers to entry, aviation services industry has high entry barriers. As a company that has an oligopoly market structure, the aviation services industry will continue to react to competitors who take action [1] It means that, the reaction carried out by one of the airlines will cause a reaction from the other airline. For example, if one of the airlines to lower ticket prices, then the others that are affected in the airline is to join the lower ticket prices. This is proven by the tight competition in the airline industry, particularly in the areas of price competition [2]. Intense competition has had implications for the industry to compete, either in the form of price competition as is done in the service industry with a domestic flight enroute Jakarta - Makassar lately. In the form of non-price competition is a form of

competition that is more focused on quality of service, which its orientation on customer satisfaction and loyalty. Facing such a reality, companies need to highlight the competitive advantage that includes price and non-price [3].

Quality of services can create a better increase than before the deregulation of the national airline business, of which the amount is at 72.11%. This indicated that there has been a paradigm shift in management of the national airlines as a result of increasingly competitive business competition regular commercial flight in Indonesia. These companies are increasingly recognizing the importance of serving quality service for customers. Customer satisfaction can create for domestic customers increased by 69.67% as compared to before the deregulation of the national airline business. This impact on increasing the value and bargaining power of customers to the airline has been the result of the many existing alternatives. Both types of airlines that can be used, rates should be cheaper to pay benefits obtained relatively better than the type of land or sea transportation, the route is a growing, flight schedules are very varied and high frequency of flights. Domestic customer loyalty that is created is of 64.05%, is more dominated by the orientation of functional benefits (cognitive and affective loyalty) than emotional benefits (connative and action loyalty).

This concern will threaten business continuity of regular commercial flight in Indonesia after the implementation of the upcoming open-sky policy. This is due to the majority of existing customers being more dominant oriented functional benefit, that is, the tariff is elastic, neutralist / opportunistic against a flight service and lower resistance to services competitors offered [4]. Service quality has become a centrepiece for airline companies in vying one another and this keeps their image in the minds of passengers. Many airlines have pushed service quality through service personalization which includes both ground and on board especially from the viewpoint of retaining satisfied passengers and attracting new ones [5].

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 [6]. Understanding and meeting customers' expectation and subsequently being different from competitors are important in order to survive in the world of globalization today. It is imperative

that service companies' measure and monitor service quality and satisfaction with a view to influence the behavioral intentions of their customers [7]. Delivering high service quality as well as being perceived as an innovator is key determinants in reducing consumer switching [8]. Thus, the importance of customer satisfaction and loyalty, quality of service and price on satisfaction and customer loyalty in the commercial aviation services industry are the variables that will be the main concern in this study.

MATERIALS AND METHODS

This research uses an explanatory study to test the hypothesis. According to Malhotra [9], explanatory research is a type of research that highlights the relationship between the study variables and test hypotheses that have been formulated. Population or sample unit is a commercial aviation service user on the route Jakarta - Makassar. Defining characteristics of this population includes space (restricted only to airlines serving the route Jakarta - Makassar and is a domestic airline that has been operating for five years and existing to this day), time (passengers within the last three months, January - March 2012, using the services of the airline on the route Jakarta - Makassar), inclusiveness (the population is taken of passengers on the route Jakarta - Makassar, at least ever using the services cost twice as much) so it can assess satisfaction or non-satisfaction using the services of airlines intended. Respondents are randomized selected passengers in accordance with the criteria specified within the limits of population. and the assumption (taken respondents were passengers on the route Jakarta - Makassar). Hasanuddin Airport in Makassar is one of the international airports in Indonesia, which serves departures and arrivals from and to various destinations, even serving overseas flights.

The sample in this study was determined by using stratified random sampling [9], that is random sampling based grouping on the number of frequency of flights, regular flights of the same routes and ticket pricing judged the same or nearly the same. The sample allocation is based on proportional random sampling [9], meaning that for a number of airlines that have more flight frequencies of course have more passengers, therefore, the sample taken is certainly a lot more too. Sampling is done by accidental sampling [9] and found that respondents were willing to be interviewed. Respondents referred to here are the passengers who arrived at the Sultan Hasanuddin Airport Makassar. These passengers

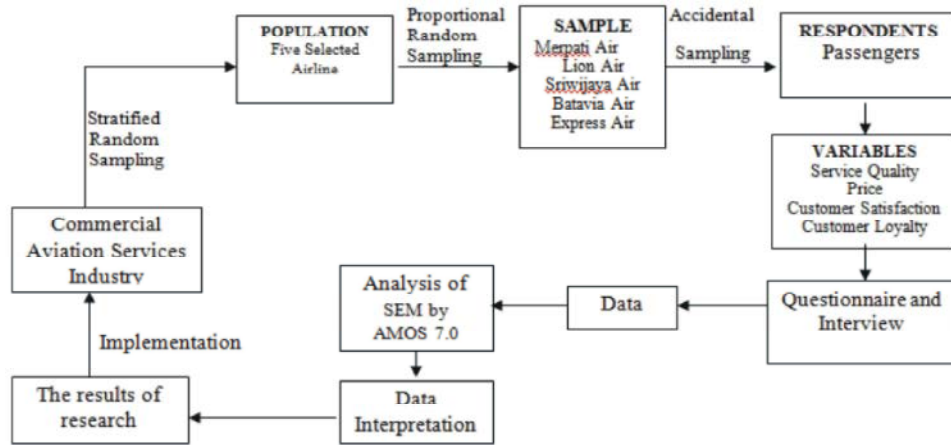


Fig. 1: the operational framework (Utari, 2004, Modifield)

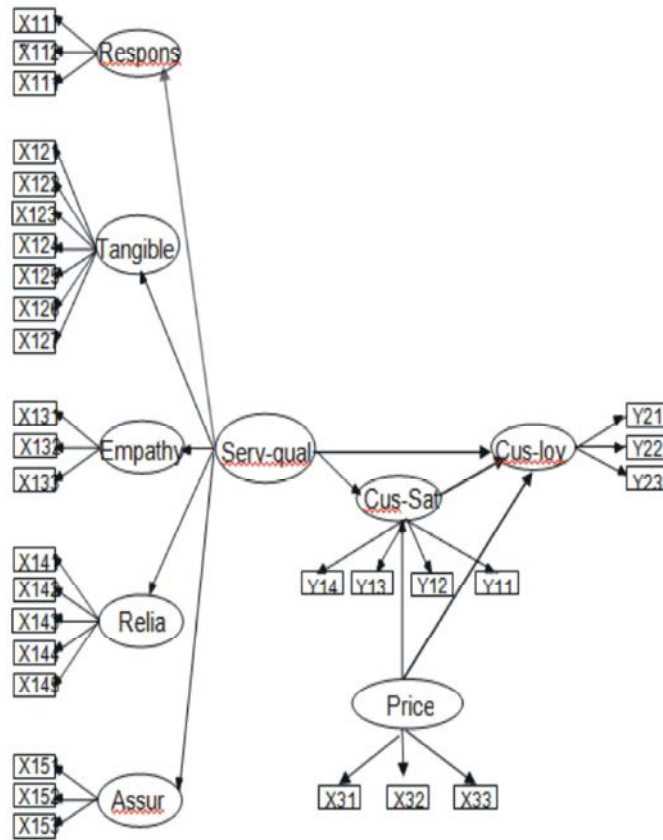


Fig. 2: The Conceptual Framework

have a minimum of twice using the services of the airline and passengers who have used services of the airline in the past three months. Determining the size of the sample is done by following the formula in Hair *et al.* [10] and Augusty [11], which states that the number of samples at least as much as 5-10 times the number of indicator variables used in the study

(310 samples, that is 10 multiplied by 31 indicator variables, chosen randomly). Then take the number of passengers per day by the number of percentage frequency of flights per day for each airline. The research was guided by the operational framework and conceptual framework as shown in Figures 1 and 2.

RESULTS AND DISCUSSION

The result does not significantly show that high or low the price paid by the customer necessarily affect the level of satisfaction that they experience. It means that when prices have increased, it does not mean the customers are not satisfied. On the contrary when the price has decreased, this does not mean that it has satisfied the customer. Thus, the fluctuations prices paid by the customer does not significantly influence customer satisfaction. Theoretically, results of this study showed that the quality of services in the aviation services industry enroute Jakarta - Makassar has a positive relationship and no significant influence on customer satisfaction. The reason is that the quality of services provided by five industry aviation services to service users, none of them provides significant satisfaction to their customers. Of overall service quality dimensions (tangible, reliability, responsiveness, assurance and empathy), none of which significantly meet expectations, performance, conformance and customer satisfaction as desired flight services.

Results of this study indicate that the customers perceive the quality of services provided by the aviation services industry is not in accordance with what they expect. In the sense that there is a gap between what customers expect from the quality of service with what they feel. This means that the aviation services industry has been providing quality service to the customers who do not conform to their expectations, so that quality of service is not intended to create customer satisfaction.

The low quality of service in the aviation services industry enroute Jakarta - Makassar supports the results of research conducted by Ostrowski *et al.* [12], Natalisa [13] and Utari [14]. Some support for the theory and empirical research that has been conducted and the results of this study are supportive of Ostrowski *et al.* [12], Fullerton and Taylor [15] and Caruana *et al.* [16]. Generally, it states that the perception of service quality has a positive effect on customer satisfaction. Meanwhile, Cronin and Taylor [17] state that service quality is a decisive factor in forming customer satisfaction.

Similarly, the price variables in this study showed a negative and insignificant effect towards customer satisfaction. This suggests that the negative effect of the high and low prices paid by the customer to determine their level of satisfaction [12] and, the results of this study support previous research by Ostrowski *et al.* [12] that the high and low prices paid by the customer determine

their level of satisfaction. However, the empirical research is different in results as of previous research by Voss *et al.* [18] in the hospitality service industry in which the finding is that prices have a significant effect towards customer satisfaction.

Similarly, the results Utari [14] has on the aviation services industry serving route Surabaya - Jakarta, argued that the prices have significant effect on customer satisfaction and loyalty. While the results of this study indicate that the price variable is not significant and negative effect on the level of customer's satisfaction, but from the side of customer loyalty, the price variable proved to be significant influence. Thus, the results of this study on one side has some similarities with the results of previous studies, regarding the negative relationship between price and customers satisfaction. On the other hand, this study is different from previous research, significant and insignificant regarding the effect of price on customers' satisfaction. Effect of service quality on customer loyalty in the airline service industry sector on the route Jakarta - Makassar has negative and significant effect on customer loyalty. This negative effect cannot be separated from the poor quality of service by the airline service industry with no significant influence on customer satisfaction.

This study proves that customer satisfaction tends to be a mediator of the influence of quality of their service on customer loyalty. Customer satisfaction can also act as connective between service quality on customer loyalty. This argument shows that customer satisfaction can strengthen or weaken the influence given by the quality of service on customer loyalty [16]. If customer satisfaction tends to be connective between service quality on customer loyalty as stated by Caruana *et al.* [16], the finding is evident of that service quality is not a significant influence on customer satisfaction, which in turn is also not significant on customer loyalty.

This study on one hand supports the theory advanced by Caruana *et al.* [16] that customer satisfaction can strengthen or weaken the influence exerted by service quality on customer loyalty. However, in contrast to the results of previous research by Parasuraman [19] and Cronin and Taylor [17] the quality of service has a significant and positive effect on customer loyalty. The difference in the results of this study with previous studies is located on the object, location, time, population and the number of different samples, so that the findings in this study are also different practical, therefore this study has its own peculiarities.

The effect of customer satisfaction on loyalty showed a positive and significant relationship between customer satisfaction and loyalty among customers who use the air services enroute Jakarta - Makassar. This suggests that higher levels of perceived customer satisfaction, the higher the level of their loyalty and vice versa, the lower the level of perceived customer satisfaction, the lower the level of their loyalty to the airline service industry. Thus, customer satisfaction will determine that customer loyalty is reflected by the attitude of the customer to re-purchase airline services on the next flight and recommend and deliver a positive message about airline to another person or another party. The results support the theory and some results of previous studies by Ostrowski [12], Kandampully and Suhartanto [20], Bowen and Cheng [21] and Caruana *et al.* [16]. In general, the studies state that customer satisfaction significantly influence the customer loyalty. The significant influence of customer satisfaction on customer loyalty in the aviation services industry supports the results a study conducted by Utari [14] and Abadi [22].

CONCLUSION

Results of this study concluded that the quality of service that have been examined differ from the results of previous studies in which the quality of service associated is positive but has no significant effect on customer satisfaction and loyalty. This is because customers are judging that what they expected from the quality of flight services is not in accordance with what they feel, so that there is customer dissatisfaction and disloyalty. Similarly, the price paid by the customer has no significant negative impact on customer satisfaction. It means that the price paid by the customer does not match the quality of service they receive. With the prices that do not match the quality of service, it will lead to customer dissatisfaction. On the side of empirical result, the price paid by customers is negatively and significantly related to its effect on customer loyalty. It means that when customers pay the price in accordance with expectations without prior satisfaction, they become loyal customers for the price valued according to their purchasing power. Furthermore, customer satisfaction gives significant positive impact on customer loyalty. It means that when customers feel satisfied then certainly they will also have loyalty to the flight services industry. Thus, the loyalty that is built will be followed by action of re-purchase or re-use flight services, flight services and

delivering. Hence, there will be recommendation on positive things about the flight services offered by the airline to the person or others. Based on this research, the researcher recommends improving competitiveness, customer satisfaction and loyalty aviation services industries through improving the quality of services and the right pricing strategies. Pricing strategies is a discounted price or prices below the competitors. From the results of this research, it also implies that the aviation services industries are to maintain consistent quality of service and continue to set the right price. Hence, the customers will certainly feel satisfied and be followed by loyalty to always use the services of the airline industry.

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