



**AN INVESTIGATION OF THE FACTORS
INFLUENCING CONSUMERS' BUYING BEHAVIOUR
OF THE LOW-COST CARRIERS IN MALAYSIA**

BY

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**A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Marketing)**

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ABSTRACT

This study investigates the factors influencing consumers' buying behaviour of Low-Cost Carriers (LCCs) in Malaysia. Nowadays, LCCs are particularly popular all over the world due to the cost compensation rather than smooth services. In Malaysia, LCCs are economic carrier because of short distance, flight ticket price, straight forward sales, almost moderate model airplane, and wide range of network hubs. However, large number of LCCs in Malaysia has increased competition and conflict among the airline consumers. As such, this research was carried out to overcome the conflicts by reducing the knowledge gap in the marketing field, especially on the factors influencing the consumers' buying behaviour of LCCs. Therefore, the researcher has adopted quantitative research design and used survey questionnaire to collect data from 206 students who are consumer of low-cost carrier in Malaysia. While developing the questionnaire used for data collection for this study, the six independent variables considered are price, service quality, reputation, safety, route availability, and promotion; the dependent variable on the other hand is consumers' buying behaviour. Having analysed the data collected from the respondents using multiple regression analysis, it was found that price, route availability, and promotion are positively and significantly contributed to the consumers' buying behaviour of low-cost carrier in Malaysia. Based on these findings, the researcher has rejected three hypotheses out of six hypotheses developed for this study. Therefore, the researcher is of the opinion that the suggestions offered in this study would encourage the LCCs companies to improve in the area of price, route availability, and promotion so as to encourage more travelers to select them; this is expected to contribute to growth of LCCs in Malaysia.

خلاصة البحث

أصبحت شركات الطيران الاقتصادي لها رواج حول العالم بسبب تعويض التكلفة بدلا من الخدمة المريحة. ومع ذلك، أصبحت شركات الطيران الاقتصادي المشغل الاقتصادي في ماليزيا بسبب مسافة الطيران القصيرة، وسعر تذكرة الطيران، والبيع المباشر، وطرز الطائرة المتوسط تقريبا ومراكز شبكة واسعة المدى. لكن، زيادة عدد شركات الطيران الاقتصادي في ماليزيا زاد من المنافسة والنزاع بين عملاء شركات الطيران. تم عمل هذا البحث لتجاوز النزاعات من خلال تقليل فجوة المعرفة لمجال التسويق خصوصا العوامل التي تؤثر على عملاء شركات الطيران الذين تم اختيارهم. تم إجراء البحث على عوامل وهي سلوك العميل مع السعر، وسلوك العميل مع جودة شركات الطيران الاقتصادي، وسلوك العميل مع سمعة شركات الطيران الاقتصادي نحو الاختيار، واختيار العميل مع أمان شركات الطيران الاقتصادي، وسلوك العميل مع توفر شركات الطيران الاقتصادي نحو الاختيار وسلوك العميل مع حملات الترويج لشركات الطيران الاقتصادي نحو الاختيار. وجد البحث أن سلوك العملاء نحو اختيار شركات الطيران الاقتصادي له أثر رئيسي من بين كل العوامل ويمكن أن يقوم بدور أساسي لشركات الطيران الاقتصادي في ماليزيا. أظهرت دراستنا أنه يظهر بأن العملاء يتأثرون بسلوك ونية العملاء السابقون عن شركات الطيران الاقتصادي، وجودة الخدمة، ونظام التسعير، وتوفر سمعة المسار، والأمان، والتوفر، وحملات الترويج. بخصوص جمعنا للمادة وتحليلها، فقد أدركنا أنه لا يمكن تعميم المنهجية على عينة كبيرة ولكنها يمكن أن تكون فعالة لمجتمع معين من العملاء الماليزيين والذين يهتمون حقا بصحة أفضل، وجودة، وأمان بالإضافة إلى حملات الترويج. يرى الباحث أن المقترحات المقدمة في هذه الدراسة ستشجع شركات الطيران الاقتصادي وتقدم معلومات مفيدة لتشكيل استراتيجيات قيمة للتواصل مع عدد أكبر من المسافرين بتحسين الجودة، والحفاظ على المسارات القديمة، وأيضا مسارات جديدة في تشغيلهم، وترقية صورة العميل.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Marketing).

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DECLARATION

I hereby declare that this dissertation is my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature.....

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Technological advancements have improved the world communications and rapid transportations. Nowadays, people are able to travel across the world within short period of time at affordable prices (Slater et al., 2010). There are many options available for travellers to travel, one of such options is Low-Cost Carriers (LCCs), which focuses on cost compensations, rather than a smooth service experienced by traveller and minimum haul routes (Vidovic, 2013). There are numbers of strategies used by LCC in order to reduce airfare below their competitors; one of these examples is income and revenue management that is paramount in reducing prices of air flight tickets.

Moreover, certain budget airlines promote several types of services to the travellers with low-cost. Civil Aviation Authority (CAA, 2008) notes that by adding additional payment, low-cost ticket consumers are able to select add-on package that compromise with refreshment on board, seat selection, and privacy. These change of services for low-cost carriers help to reduce the operational costs and allow the airline companies to offer cost reduction in the form of lower price tickets. In term of allowing the travellers to choose a cheaper air fare with maximum service quality, they also offer promotion packages. Since last three decades, low-cost carriers have been growing rapidly in the Asian region (CAA, 2008). The catalyst for the growth in the aviation industry is due to the growing popularity of low-cost carrier and increasing number of passengers. According to Yeoh and Jennifer (2011), low-cost carriers have intensified full service airlines, particularly during economic recession in 2008 and 2009.

1.2 BACKGROUND OF THE STUDY

In terms of operation, the airline industry is divided into two types: Low-Cost Carriers (LLCs) and the Full-Cost Carriers (FCCs) (FCC is also known as the traditional airlines). Malaysia first stepped into airline corporation business in 1937 with the name of Malaysian Airways Limited (MAL) which was subsequently changed to Malaysian Airlines (MAS); globally, MAS is one of the best FCCs. In 1993, the initiative taking by AirAsia as the pioneer of Malaysian's Low-cost Carrier (LLC) has encouraged other players, such as Berjaya Firefly, Malindo, AirAsia X, Maswings, and Sabah Air Aviation, to venture and establish airline companies in Malaysia.

The concept of low-cost carrier was first introduced in 1950 by Pacific Southwest Airline with a very specific objective which is to provide and offer cheaper price tickets for travelers. According to Uherek (2006), Southwest Airlines, which is based in Texas, are the American's first LLC Company. Meanwhile, the 1978 Aircraft Deregulation Act makes a real start for low-cost carriers throughout the world. With the new concept, low-cost carriers have managed to capture the market shares of the airline industry, surpassing the full-cost carriers. This is because offering lower ticket price encourages consumers to select LLCs as preferred mode of transportation. However, Hameed (2011) and Uherek (2006) document that there is no sharp difference between low-cost carrier and full-cost carrier. According to them, the main strategy used by LLC is to offer limited services at lower prices. For most travelers, cheaper flight ticket is considered to be a significant factor for selecting LLC. This kind of carrier offers supplementary services by introducing additional charges on services, such as food and beverage, additional luggage weight, and seat selections on board. In airline industry, budget airline is classified as an innovative and dynamic type of business model. LLC

usually fly for a short distance, known as the short-haul flights (point to point destination). Table 1.1 illustrates the comparison of full-service carriers (FSC) and Low-Cost Carriers (LLCs) with respect to the business model.

Table 1.1 Differences between Full-Cost Carrier and Low-Cost Carrier

Characteristic	Low-cost Carriers	Full Cost Carriers
Brand	One brand: low price	Extended brand: price/service
Price	Simple pricing structure	Complex pricing structure
Distribution	Internet, direct booking	Internet, direct, travel agent
Checking in	Kiosk, e-tickets	Kiosk, Paper tickets, e-tickets
Network	Point-to-point	Hub-and-spoke
Classes	One class	Multiple classes
During flight	No frills	Frills (free food & beverages)
Aircraft usage (load factor)	Very intensive	Average – intensive
Aircraft type	One type	Multiple types
Turnaround times	30 minutes or less	Slow: congestion/complexity
Customer service	Generally, underperforms	Full service, offers reliability
Airport	Secondary	Primary
Operational activities	Focus on core – flying	Flying, cargo
Target group	Leisure, price and time sensitive travellers	Business and leisure travellers
Services	No frequent flyer program or passenger lounge	Frequent flyer program with passenger lounge

Source: O’Connell and Williams (2005)

The above comparisons clearly show that low-cost carrier offers a straightforward and flat ticket price; direct sales; class arrangement; no partnership; brand new, and single model airplane (Sabre, 2010). On the other hand, full-cost carrier is used as a hub with a wide range of networks; structure of airfare is very complex; discrimination in price; open sales market; and mixed airplane fleets (Sabre, 2010).

Different service levels are offered by both carriers with different price (CAA, 2010). For instance, full-cost carriers offered three different kinds of services, namely economy class, first class, and business class; whereas, most low-cost carriers offered only the economy class – known as single class of service. These two diverse aspects of business models work differently in attracting the travelers. Furthermore, consumer's objective on the selection of air carriers are influenced by the fact that LLC is suitable for people that travel frequently for short distance, while FCC is suitable for people that travel for long distance (Fourie, 2006).

Business model of a budget airline has proven to be a strong rivalry to the full-cost carrier's model. Even though the impact varies internationally, evidence demonstrates that the low-cost carrier sector has been mounting significantly and it has a vital effect in the airlines industry. For instance, annual airline traffic report published by European Union (EU) in 2012 reveals that the number of total FCC flights fell by around 2.67 percent, while the LCC division grew by 1.4 percent. In 2012, LCC captured 25 percent of total market shares, with an average of 6,537 flights fleets in a day, within the European region; an indication that similar type of growth can be seen in Asian market. The market share of low-cost carriers has jumped from 3.3 percent in 2001 to 57.6 percent in 2013 (Harbison, 2013). While Malaysia, Philippines, and Thailand are considered to be eco-friendly countries in the Asian region which make it easy for the operation of low-cost carriers; the low-cost carrier sector is expected to experience highest growth rate in the region in the near future (Teng, 2013).

Throughout the world, consumers have raised question on the promise of low-cost carriers in providing cheap air flight tickets. This is because most travelers perceived low-cost carriers as low compared to the full-cost carriers based on the advertisement and promotional activities conducted by the companies. The low-cost

carrier uses structured fare model which comprises of limited number of tickets at low prices (Vidovic, 2006). As such, limited number of passengers truly enjoy the promotional fare. Nevertheless, it can be seen that LCC division has gained tremendous growth in the European and Asian markets. The overall gap of cost between low-cost carrier and full-cost carrier was around 60 percent to 70 percent. However, the gap of fare in the United States is around 39 percent, and in the European is almost 40 percent to 50 percent (Smyth, 2006).

Among the LCCs in Southeast Asia, AirAsia is the biggest airline company with the presence in Malaysia, Philippines, Thailand, Singapore, and Indonesia. Indonesia has its own LCC which is known as the Lion Air (Bland, 2014). Countries like Malaysia, Indonesia, and Thailand are measured as an ideal region for the development of low-cost carriers; this is because the number of middle class families are increasing day by day in this region. In addition, the number of LCCs aircrafts are expected to surpass FCCs in the near future in the Southeast Asia (Bland, 2014). As such, in order to provide best services, it is essential for the service providers to identify and determine factors influencing consumers' buying behaviour of the low-cost carriers.

In Malaysia, statistics have shown that the budget airline segment is extremely strong. Malaysia Airport Holding Berhad (MAHD) is a semi-government body which takes care and controls airports management in Malaysia. Table 1.2 below summarises the statistics of low-cost carriers in financial year of 2015, covering Q1 and Q2 in 2014. Based on the statistics, low-cost carrier passengers' load accounted for 11.6 percent. The number of passenger increased around 4.7 percent from 2014 to 2015. Specifically, KLIA accounted for 22.6 million passengers, while KLIA 2 accounted for 26.3 million travelers. The growth of low-cost carriers in Malaysia is contributed by AirAsia, AirAsia-X, Malindo Air, and Firefly.

Table 1.2 KLIA 2 & KLIA: Main Passenger loads statistics December 2015 ('000)

Airport	2015	2014	%	2015	2014	%
KLIA						
Total	2,123	2,425	-12.5%	22,616	24,904	-9.2%
International	1584	1,846	-14.2%	17,578	18,987	-7.4%
Domestic	539	579	-6.9%	5,038	5,917	-14.9%
KLIA2						
Total	2,706	2,425	11.6%	26,314	24,026	9.5%
International	1824	1,615	13.0%	17,170	15,809	8.6%
Domestic	882	810	8.8%	9,143	8,217	11.3%

Source: Malaysia Airport Holdings BHD

Similarly, literature has shown that price is considered as the key factor when deciding travel mode among travelers (Bland, 2014; CAA, 2006). Despite the fact that Southeast Asian region holds approximately 58 percent of the global market shares of the low-cost carriers, the number of research on this subject is limited (Harbison, 2013). A study conducted by Chang and Cheng (2007) compares travelers of full-cost carrier and low-cost carrier that travelled between Singapore to Taipei (Taiwan) route (Chang, 2007) concludes that airline image and price have positive impact on the selection of low-cost carrier. Another study suggests that frequency of flight, schedule, high cancellation charges, and seating arrangement are factors that influenced the selection of airline company (Diggines, 2010). In 2010, a piloted study in West Midlands mentioned that price play a vital role in the selection of low-cot carrier (Davison, 2010).

1.3 PROBLEM STATEMENT

An increasing number of low-cost carriers competing with one another in securing larger market shares has created conflict of interest among airline consumers. Nowadays, consumers are aware of availability of low-cost carriers for local and international travels (Nadiri, 2008). The low-cost carrier aims to provide best service

quality at the lowest rate through numerous promotional campaigns and advertisements (Hussain, 2008). This intense competition between the industry players further escalates the level of complexity on consumer in selecting the service provider. Consumers tend to select a low-cost carrier based on numerous aspects, such as schedule, ticket price, service quality, reputation, brand recognition, promotions, and availability of destination. In this case, it is essential to conduct a study in understanding factors that influence consumers when selecting of low-cost carrier. Carrying out study of this nature could help the prospectus clients in determining the most significant factors in deciding airline to travel with. A research conducted on Thailand low-cost carriers indicates that service quality is one of the factors influencing travelers' satisfaction. According to the author, the components of service in this sector comprises of tangibles variables, such as air condition system, seats, condition of plane, ground staff, flight crew members, and schedule, are elements of the service quality (Saha, 2009).

Similarly, the study of Thapanat (2015) on low-cost carriers reveals that price influences consumers' purchasing intention in Thailand. Also, discount on air flight ticket is considered as most influential factor for selecting Airline Company among Malaysian consumers (Allen, 2011). One of the groups that are most interested with cheap air flight tickets is young consumers. Moreover, considering the fact that Southeast Asia region holds the biggest market shares of the low-cost carriers in this world, it is essential that there are ample evidences in this particular area of study. Concurrent with this need, this research investigates factors influencing consumers' buying behaviour of the low-cost carriers by considering the opinion of consumers in Malaysia.

Meanwhile, several studies have recommended price sensitivity as the main factor that influence consumers' decision when selecting airline company (Oyewolea,

2008). However, other factors influencing consumers' buying behaviour of the low-cost carriers are: safety level, service level, and safety programs (Baisya, 2004). Similarly, there is evidence that availability of flight and travel destination are another factors influencing consumers' decision in selecting low-cost carriers (Atalik, 2007). As such, large literature search suggests that past studies are more concentrated on selected factors and no research has been conducted covering all relevant factors. In other words, most of the studies in this area have utilised specific type of factors while investigating targeted respondents. Therefore, this study is conducted to examine the perception of Malaysian consumers, by addressing the knowledge gap, in order to understand factors influencing consumers' buying behaviour of the low-cost carriers.

1.4 RESEARCH OBJECTIVES

The main purpose of this study is to investigate the factors influencing consumers' buying behaviour of the low-cost carriers in Malaysia.

Based on the above main objective, there are six specific objectives which are:

1. To investigate the influence of price on consumers' buying behaviour of the low-cost carriers in Malaysia.
2. To investigate the influence of service quality on consumers' buying behaviour of the low-cost carriers in Malaysia.
3. To investigate the influence of reputation on consumers' buying behaviour of the low-cost carriers in Malaysia.
4. To investigate the influence of safety on consumers' buying behaviour of the low-cost carriers in Malaysia.

5. To investigate the influence of route availability on consumers' buying behaviour of the low-cost carriers in Malaysia.
6. To investigate the influence of promotions on consumers' buying behaviour of the low-cost carriers in Malaysia.

1.5 RESEARCH QUESTIONS

1. Does price influence consumers' buying behaviour of the low-cost carriers in Malaysia?
2. Does service quality influence consumers' buying behaviour of the low-cost carriers in Malaysia?
3. Does reputation influence consumers' buying behaviour of the low-cost carriers in Malaysia?
4. Does safety influence consumers' buying behaviour of the low-cost carriers in Malaysia?
5. Does route availability influence consumers' buying behaviour of the low-cost carriers in Malaysia?
6. Do promotions influence consumers' buying behaviour of the low-cost carriers in Malaysia?

1.6 SIGNIFICANCE OF THE STUDY

The significance of study is written based on the perspectives of theory and practice. From the theoretical perspective, this study has helped in reducing the knowledge gap in the marketing field, specifically on the aspect of factors influencing consumers' buying behaviour of the low-cost carriers. Given the importance of this area of study, studies of this nature that investigate buying behaviour among consumers in deciding

which low-cost carrier to use are required. As such, this study could help to provide an overview to other consumers on the important factors which they should take into consideration upon deciding the airlines to travel with.

Price is considered as the main factor that influence users' decisions during the selection of low-cost carrier (Yeoh & Jennifer, 2011). However, when airline operators provide tickets at similar rate; consumers would then have to evaluate other aspects, such as service quality, seating arrangement, travel time, and complimentary provided by the operators (Rajasekar, 2009). Therefore, the results of this study are important in providing detailed understanding on other contributing factors that influence buying of low-cost carrier among consumers. The result of this study is useful for potential consumers to use as a guideline in reviewing the options available.

Stimulations of the economy are influenced by various factors, such as the volume of trade. As such, this research is crucial as it helps to encourage the growth of low-cost carriers by providing review on the services and facilities of the industry. The practicality of this research is reviewed based on the type of data utilized in this study. The result of this study is based on the perception of travelers in developing countries - Malaysia. It is possible that the perception of travelers from developing nations, such as Asian countries, are different in certain perspective in selecting LLCs compared to those travelers from developed nations, such as the European countries (Walker, 2011). A new research conducted in Asian countries, such as this research, is important in providing literatures that can help to provide the opportunity to compare data of future research with this study. As such, consumers from both developing and developed countries have the opportunity to compare the LLCs selection factors which can help them in deciding better.

Another practical significance is in terms of the target markets. The establishment of low-cost carriers has attracted the attention of all target markets that include students, low income group, young consumers, and others (Engel, et. al., 2010). Nowadays, people are keen to travel by airlines compared to other mode of transportation, especially for international journey. It is a common action by consumers to go through numerous publications in finding information regarding airlines to select for their journey. As such, through this study, business readers have the opportunity to understand thoroughly on the factors that are considered by other consumers in buying low-cost carrier. Moreover, since this study utilises the perception of consumers in Malaysia; it is believed that the result of this research can help to understand the factors that they should consider upon purchasing airline tickets.

1.7 STRUCTURE OF DISSERTATION

This dissertation contains five chapters. All chapters are related with one another in investigating the factors influencing consumers' buying behaviour of the low-cost carriers in Malaysia. Chapter one discusses the structure of this study; it provides introduction to this research with explanation on the background of study; in addition, Chapter one also covers problem statement, research questions, research objectives, and significance of study.

Based on the scope of study defined in Chapter one, a thorough evaluation on previous studies are conducted in determining key subjects associated with this research. LCCs and the factors influencing consumers' buying behaviour of low-cost carriers are discussed in Chapter two. Concurrent with objectives of this study, a detailed analysis was conducted on the factors influencing consumers' buying

behaviour of low-cost carrier. Result of past studies are compared and reviewed in order to provide brief understanding on the subject matter which help the researcher in selecting research methodology. Factors analysed in this study are: price, service quality, reputation, route availability, safety, and promotion. More so, supporting literatures on the adopted methodology by the researcher is explained briefly in Chapter two.

The quantitative methodology adapted in this study is explained briefly in Chapter three. This chapter offers discussion on research design, method of data collection, sampling procedure, and data analysis method which are significant in defining the quality and attributes of case study conducted for the research purposes.

Chapter four presents the analyses performed on the primary data collected through survey questionnaire. The analyses which were conducted via Statistical Package for the Social Science (SPSS) are presented and explained briefly by the researcher in this chapter. As shown, the computation of frequency distribution, exploratory factor analysis, reliability test, and regression analysis are covered therein.

Based on the analyses conducted and presented in Chapter four, interpretations of major finding are presented in Chapter five of this dissertation. Comparing the results of this study with past studies have helped the researcher to provide detailed findings within the scope of study.

1.8 CHAPTER SUMMARY

There are numerous factors influencing consumer's decision in selecting Low-cost Carrier (LCC). Previous studies have documented that price is the most significant factor which prevails over other factors, such as service quality, reputation, safety, route availability, and promotions. However, due to limited number of studies conducted in

the developing countries compared to in the developed countries, it is important to carry out study of this nature in order to understand factors influencing consumers' purchasing intention. As such, this study is conducted to achieve six planned objectives based on the buying behaviour of low-cost carrier by the Malaysia travelers.