



**CUSTOMER SATISFACTION AND LOYALTY
TOWARD 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

The emergence of low cost carrier services has changed the fundamentals of aviation industry. The on-board services are generally removed to promote low fares. Through this new invention, the perception of customers regarding the quality, satisfaction, and loyalty of LCCs service are found to be different from full service airlines. Most of the studies done in Malaysia for LCC, focusing on the relationship between service quality and satisfaction. Therefore, the purpose of this study is to explore factors of service quality used in LCC industry that influence level of satisfaction as well as level of loyalty in Malaysia. To fulfill this study, data were collected from 221 respondents across Klang Valley area and Low Cost Carrier Terminal (LCCT). SPSS and Amos were used in data analysis to present meaningful result for this study. From the result obtained in CFA, the structural equation modelling (SEM) was performed to examine the relationship of the hypotheses developed for this study. The result revealed that there is positive and significant relationship between service quality and customer satisfaction. In addition, the result also disclosed the positive and significant relationship between customer satisfaction and loyalty.

الملخص

إن ظهور خدمات الطيران منخفضة التكلفة قد غيرت من أساسيات قطاع الطيران. وعموماً تتم إزالة الخدمات على متن الطائرة لتخفيض الأسعار. ومن خلال هذا الاختراع الجديد، فقد ثبت أن موقف الزبائن تجاه نوعية الخدمات، ورضاهم بها، وولاءهم لها يختلف عن موقفهم تجاه شركات الطيران التي تقدم الخدمات الكاملة. ومعظم الدراسات التي أجريت في ماليزيا في مجال خدمات الطيران منخفضة التكلفة، تركز على العلاقة بين جودة الخدمات ورضا الزبائن. ولذا ، فإن الهدف من هذه الدراسة هو استكشاف عوامل جودة الخدمات المستخدمة في قطاع الطيران منخفضة التكلفة التي تؤثر على مستوى الرضا ومستوى الولاء في ماليزيا. ولتحقيق هذه الدراسة ، فقد تم جمع البيانات من أفراد العينة، وعددهم 221 شخصاً، وذلك في مناطق وادي كلانج، ومطار الطيران منخفضة التكلفة (LCCT). واستُخدم برنامجا SPSS و AMOS في تحليل البيانات لتقديم نتيجة ذات معنى لهذه الدراسة. ومن خلال النتائج المتحصلة عليها في التحليل العاملي التوكيدي CFA، فقد تم إجراء نمذجة المعادلة الهيكلية (SEM) لدراسة العلاقة بين الفرضيات التي وضعت لهذه الدراسة. وقد أثبتت النتيجة أن هناك علاقة إيجابية وذات دلالة إحصائية بين جودة الخدمة ورضا الزبائن، كما أظهرت النتيجة أن هناك علاقة إيجابية وذات دلالة إحصائية بين رضا الزبائن وولائهم لهذه الخدمات.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of 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.

Nurul Aflah

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**CUSTOMER SATISFACTION AND LOYALTY TOWARD LOW COST
CARRIERS IN MALAYSIA**

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LIST OF ABBREVIATIONS

LCC	Low Cost Carrier
LCCT	Low Cost Carrier Terminal
IATA	International Air Transport Association
KLIA	Kuala Lumpur International Airport
SPSS	Statistical Packages for Social Science
AMOS	Analysis of Moment Structure
SEM	Structural Equation Modelling
KMO	Kaiser-Meyer-Olkin
EFA	Exploratory Factor Analysis
CFA	Confirmatory Factor Analysis
GFI	Goodness-of-Fit Index
CFI	Comparative Fit Index
RMSEA	Root-Mean Square Error of Approximation
AVE	Average Variance Extracted
CR	Construct Reliability
MSV	Maximum Shared Variance
ASV	Average Shared Variance
Min	Minimum
Max	Maximum
Std.	Standard
i.e.	(<i>id est.</i>): that is
et al.	(<i>et alia</i>): and others

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter will provide an overview of the study which includes characteristics of low cost carrier and its expansion throughout the world, problem statement, objectives of the study, research questions, and significance of the study. This chapter will also briefly discuss the terms used and chapters covered in this study.

1.2 CHARACTERISTICS OF LOW COST CARRIERS

The emergence of low cost carriers has widely altered the fundamentals of airline industry. These low cost carriers are also known as no-frills airlines and budget airlines; the idea is to offer aviation services at as low cost as possible without incurring additional costs commonly incurred by service airlines. Their core is to provide basic service to passengers, i.e, transporting them from one place to their desired destination. According to International Air Transport Association (IATA) (2006), LCCs have successfully differentiated their nature of business from full-service airlines. The basic characteristics of this low cost aviation are no-frills, single class, discount fares, and the route covered only for short haul, that have successfully differentiated their nature of business from full-service airlines. Besides, in developed countries such as United States and Western Europe, low cost carriers are served at secondary airports. This decision was made with the intention to reduce operating cost, incurred due to high tax and surcharge applied to airlines at the main airport. In addition, shifting to secondary airport also helped in cutting the on-ground cost (IATA, 2006). LCC services also tried to reduce ticket fares by eliminating hospitality

offers on board. Typically, a low cost aviation offers only basic services on-board, namely: standard seat, single class, no in-flight entertainment. Then, they charge fee for baggage allowance, and serving food and beverages on-board. Table 1.1 presents some of the characteristics that LCC industry must have.

Table 1.1: Characteristics for Low Cost Carrier

- Primarily point-to-point operations.
- Serving short-haul routes, often to/from regional secondary airports.
- A strong focus on price sensitive traffic, mostly leisure passengers.
- Typically one service class only, with no (or limited) customer loyalty programs.
- Limited passenger service, with additional charges for some services (e.g. On board catering).
- Low average fares, with a strong focus on price competition.
- Different fares offered, related to aircraft load factors and/or length of time before departure.
- A very high proportion of booking made through the internet
- High aircraft utilization rates, with short turnaround times between operations.
- A fleet consisting of just one or two types of aircraft.
- Private-sector companies.
- A simple management and overhead structure with a lean strategic decision-making process.

Source: IATA (2006)

1.3 ESTABLISHMENT AND EXPANSION OF LOW COST CARRIERS WORLDWIDE

LCC has been operating for almost four decades. It was pioneered by Southwest Airlines in 1971, followed by successful adoption in Europe by Easy Jet, which currently owns 182 fleets and successfully generates more than 46 million passengers a year. The emergence of low cost airline industry has widely altered the fundamentals of airline industry. Before 1970s, the airline industry was operating with full service airlines with the goal to provide nice and pleasant trip for passengers. This full airline service was and still continues to be expensive due to the hospitality offered on board. Allegedly, these high costs have drawn the attention of managers in aviation

companies to accommodate more passengers, from low and middle income class, to fly at reasonable fares. This huge step in airline industry received positive response from customers as demonstrated by huge customer shift from full service airlines to low fares, for short haul flight.

According to IATA (2007) LCC market share is 24% of all air passengers, with large share coming from European region. The LCC industry has successfully expanded into Europe starting from 9% to a huge 39%. This figure legitimates that LCC industry has become one of the major sectors in Europe since a decade, with increasing growth rate.

In Middle East, LCC service is operated by Jazeera Airways and Air Arabia. While in Brazil, LCC services are operated by Gol Transportes Aéreos that also served other countries in Latin America (Sampaio, 2009).

In Asia, the LCC service started in 2002 by Air Asia Berhad in Kuala Lumpur, Malaysia. Since its inception till now, Air Asia has received wide recognition around the world for its low cost aviation service operation, namely: World's Best Low Cost Airline Award in 2007, 2009, 2010, and 2011 (Skytrax, 2012). Air Asia also affiliated with Thai Air Asia and Indonesia Air Asia. Currently Air Asia has expanded its services to serve outside South East Asia, such as: Japan, Korea, China, Australia, and South Asia. Besides Malaysia, there are several Southeast Asian countries that also provide LCC services, such as: Thailand – 'One To Go' and 'Nok Air'; Singapore – 'Tiger Airways' and 'Value Air'; and Indonesia – 'Lion Air' and 'Adam Air' (Damuri & Anas, 2005).

1.4 PROBLEM STATEMENT

Customer satisfaction in airline industry is determined through service quality perceived by passengers (Munusamy, Chelliah, & Pandian, 2011; Parahoo, 2010; Saha & Theingi, 2009; Salleh, Ariffin, Tih, & Asbudin, 2010). While, customer loyalty is driven directly from customer satisfaction (Cao & Chen, 2011). In contrast, a recent study in Thailand's airline industry exhibits that perceived service quality directly affects loyalty without measuring satisfaction as the mediator (Chotivanich, 2012).

Perceived service quality is achieved through dimensions in SERVQUAL measurement. Initially, there are ten dimensions in SERVQUAL measurement (Parasuraman, Zeithaml, & Berry, 1985). After empirically testing for the validity of SERVQUAL dimensions, the ten were reduced to five; these five yielded high reliability coefficient score and were thus valid for future application in the service sector. The five dimensions are: *tangibles*, *reliability*, *responsiveness*, *assurance*, and *empathy*. These dimensions are used to determine the gap, between customer expectation and customer perception in service sector (Parasuraman, Zeithaml, & Berry, 1988).

Beside these five dimensions, other studies showed that price is another significant element that influences customer satisfaction in low cost aviation industry (Fourie & Lubbe, 2006; O'Connell & Williams, 2005; Parahoo, 2010). Price is the prime reason why customers decide to choose LCC at the first place. Taking this notion forward, discounted fares offered by LCC will lead to positive behavioral intentions for future patronage (Yeoh, Kim, & Chan, 2011).

There are other factors which also contribute to customer satisfaction and loyalty. O'Connell and Williams (2005) stated that brand, user friendly website, flight schedules, and holiday packages as elements affecting satisfaction level and customer

loyalty. Other researchers found South African customers, preferring comfort seat during the journey and on time flight schedules (Fourie & Lubbe, 2006). In Malaysia, customer relationship management is the main factor for customer patronage to LCC service in the future (Munusamy et al., 2011). A good relationship benefit the company to retain potential customers. Besides, the study by Munusamy et al. (2011) also indicates that on-ground and in-flight services are also other important elements in Malaysia. In contrast to Malaysian market, Thai customers emphasized more on flight schedules as the main, while flight attendants and tangibility as subsequent factors that lead to customer satisfaction (Saha & Theingi, 2009). In European market, the important factors for perceived service quality are on time flight schedule, no cancelation of flights, and proper baggage handling (Tiernan, Rhoades, & Waguespack, 2008).

Ariffin, Salleh, Aziz, & Asbudin (2010) studied low cost aviation in Malaysia focusing only on domestic destinations and not on long haul flights. Hence, the study could not give in depth information, especially for international destinations flights. So, they proposed further study to give more reliable information regarding LCC services and improve its generalization.

Some other previous studies stated their limitations in determining service quality dimensions that influenced customer satisfaction and loyalty. The gaps in these studies are categorized into three: first gap is the relationship between service quality dimensions and level of satisfaction. A study on customer satisfaction in LCC service by Ariffin et al. (2010) found tangibility and reliability significantly influencing customer satisfaction. Other elements: responsiveness, affordability, and visual attraction, were not found significant in their research. The second gap was lack in causal relationship between service quality, satisfaction, and intention (Saha &

Theingi, 2009). Lastly, generalizability for this study is limited in terms of measurement and respondent's profiles (Ariffin et al., 2010).

The study on customer satisfaction and behavioral intention in LCC service has been done previously by Saha & Theingi (2009) in Thailand. They employed service quality dimension to determine customer satisfaction that leads to word of mouth and repurchase intention. While in South Korea, a study done by Kim and Lee (2011) on customer satisfaction for no frills airlines investigated the relationship of service quality dimension, customer satisfaction, and behavioral intentions. Extending these studies, this research will focus on the service quality dimensions that influence customer satisfaction and loyalty for LCC service in Malaysia.

1.5 OBJECTIVES OF STUDY AND RESEARCH QUESTIONS

Based on the problem statement, the objectives for this study are as follows:

1. To determine the relationship between service quality, customer satisfaction and loyalty in low cost aviation industry.
2. To identify the important dimension of service quality that strongly influences satisfaction and loyalty towards LCC services.
3. To identify LCC customer's repurchase intention towards the service in the future.

Hence, to accomplish the above objectives, research questions are developed:

1. What is the relationship between service quality, customer satisfaction, and loyalty in low cost aviation industry?
2. Which service quality dimension is important that contribute towards customer satisfaction and loyalty when using low cost airline?
3. Do the customers intend to patronize LCC service in the future?

1.6 SIGNIFICANCE OF THE STUDY

Previous studies in Malaysia have successfully investigated the relationship between service quality and customer satisfaction (Ariffin et al., 2010; Munusamy et al., 2011). Since customer satisfaction is proven to be interrelated with customer loyalty, the investigation should be extended to determine future action of the same customers. From various studies done for low cost carriers in Malaysia, the factors employed in measuring service quality were mostly adopted from full-service airlines, which have different fundamental from LCC service. Besides, the studies done in Malaysia for LCC only revealed the relationship between service quality and satisfaction, without involving the level of loyalty. This study therefore is significant from several perspectives.

From the academic perspective, this study aims to reveal the factors of LCC service quality that can be used to determine the level of satisfaction and their intention to patronize with the service. A service quality perceived favorable will lead to high level of satisfaction (Parasuraman et al., 1985). Because of the previous pleasant experience, the satisfied customers will repurchase the same service usually from the same provider (Oliver, 1999).

From the managerial perspective, this study aims to provide guidelines for LCCs to provide better service to enhance customer satisfaction and eventually their loyalty towards the company. A service quality perceived excellent by customers will bring more profit to company, create favorable image, and help in retaining existing customers to patronize with the company more often in the future (Hoffman & Bateson, 2008).

Therefore, looking into the contribution stated above, it is significant for this study to be undertaken as it would contribute to further understanding on the

dimensions of service quality in LCC industry that influence level of customer satisfaction as well as level of loyalty perceived by customers in Malaysia.

1.7 GLOSSARY

There are several key terms that will be used in this study, which are defined as follows:

Tangible: the physical facilities and equipment that are available for the fleet. In this study, tangible covers the aircraft, cabin environment, seat, leg space, and appearance of the staff (Nadiri, Hussain, Ekiz, & Erdogan, 2008; Saha & Theingi, 2009).

Flight schedules: the timetable provided for arrival and departure. It also encompasses the issue of delay and cancellation that occur before the flight take off (Saha & Theingi, 2009; Tiernan et al., 2008).

Price: amount required to be paid to obtain the service provided by the carriers. It covers the ticket and auxillary services served on board (eg: food and beverages, in-flight entertainment) (Yeoh et al., 2011).

In-flight services: Services provided on board during the journey. They cover food and beverages as well as entertainment (eg: reading material) served during journey (IATA, 2006; Lederman & Januszewski, 2003).

- In-flight personnel: The crew which serves the passengers during the journey (Saha & Theingi, 2009).
- On-ground personnel: The members of airlines who work at the airport. They serve customers on ground (before they board the plane and after they get off) (Saha & Theingi, 2009).
- Perceived service quality: Customer perception towards the overall LCC services provided by the company (Parasuraman et al., 1988).
- Customer satisfaction: Level of satisfaction experienced by passengers after availing the service (Oliver, 1989).
- Customer loyalty: Customer's intention to repurchase the service from the same company on future (Hoffman & Bateson, 2008).

1.8 THESIS OUTLINE

This study is structured as follows:

Chapter 1 (Introduction): This chapter discussed the LCC industry and its expansion across the world, followed by problem statement, objectives of the study, research questions, significance of the study, and definitions of key terms used.

Chapter 2 (Literature Review): This chapter provides comprehensive review of previous studies done on service quality, customer satisfaction, and customer loyalty in LCC. This chapter

also contains a detailed review of service quality dimensions found in the past studies.

Chapter 3 (Theoretical Framework): This chapter discusses the variables used in this study. Hypotheses developed for this study are also explained therein.

Chapter 4 (Research Methodology): This chapter discusses the research design, sampling, questionnaire development, data collection process, and data analysis done for the study in hand.

Chapter 5 (Data Analysis and Findings): This chapter explains the findings of data analysis. In addition, this chapter has also answered the research questions derived in chapter one.

Chapter 6 (Discussion and Conclusion): This chapter discusses the findings, implications, and limitation of this study. It concludes with suggestions for future research.

1.9 SUMMARY

This chapter discussed the background for studying LCC, explained the problem statement for this study, objectives, research questions, and significance of this study from academic and managerial perspectives. Some key terms used in the study are also explained. The last part contains a brief description of subsequent chapters.