

# FACTORS AFFECTING CUSTOMER SATISFACTION AND LOYALTY TOWARDS LOW COST AIRLINE IN THAILAND

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**Abstract:** *This research aims to examine the effect of service quality and price toward customer's satisfaction and loyalty in Thai Low Cost Airline (LCA). The data was collected from the survey of 471 respondents who were passengers of Thai LCA. The data was analyzed using multiple regression to determine the influences of the variable. The correlational value pointed out that that customer's satisfaction and customer's loyalty greatly affect each other, followed by service quality and customer's satisfaction. The least influential variable was between price and customer's satisfaction and loyalty. Thus, the investigation indicates that the casual correlation of customer's satisfaction and loyalty is largely interlinked. The local LCA should aims to develop their satisfaction through passenger's satisfied service quality, mainly via responsiveness quality.*

**Keywords:** *Satisfaction, Loyalty, Price, Service Quality, Low Cost Airline (LCA)*

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## **Introduction**

Today, the tourism industry in Thailand has dominantly impacted by Thai economic especially in Thai airline industry. The flourishing economy was targeted by Low Cost Airline to expand and give accessibility to general consumers. Moreover, airline industry competition bolsters additional options for passenger to choose from.

Low Cost Airline (Budget Airline; Low Cost Carrier) is a unique business which is distinguished by a dynamic host of the competitive scheme in aviation industry. In general perspective, LCA were considered as a convenient, affordable and alternative way to travel. Research indicate that passenger's psychology traveling via LCA did not has high expectation due to its well-known business concept. The well-known business concept of the LCA gives consumers their freedom of choosing their ticket capability. This means that additional benefits normally found in fully funded airline will be charged (i.e. baggage loading and on-board meal). Subsequently, creating a circumstance where legacy airline to substantially lose an amount of market share to these newly formed LCA, purely because of consumer's demand on price over full-service airline are considerably more attractive to the consumer. LCA was able to offers their consumer relatively low price by utilizing fewer service to a bare minimum and by selling additional service at a price

higher than ordinary. On the other hand, full-service carriers had to reduce their operational cost as well as their air ticket fare to compete with the LCA, however, they predominantly focus their market on long-haul flight that LCA cannot operate due to increase in expenditure (Login, 2017).

Since the beginning of 2004, the population of consumers has a steady incliment with approximetly 20% increase between 2012 and 2013 (AOT, 2015). Among the visitors, Southeast Asia countries and China consumer contribute to most of the inbound tourist, while Thai population make up the outbound traffic to Japan and South Korea. Another factor that contributes to the growth and expansion of the main LCA in Thailand was the relocation of the operating base from the main Suvarnabhumi Airport (BKK) to Don Mueang Airport (DMK) created opportunity resulted in less competitiveness between LCA and full-service carriers. LCA were promoted to relocate to the Don Mueang Airport in 2012, to reduces air traffic congestion at the main airport. Moreover, the relocation brings benefits to airlines as they can add more flights and avoid financial loss from possible delays to their companies. The growth and fierce struggle will continue at a breakneck speed as the ASEAN (Association of Southeast Asian Nations) open a new stage with Sky Policy, a liberal market for commercial airlines to develop in 2015. Under the implemented regulation, every airline in the Association of Southeast Asia Nations has unlimited rights to fly among cities in the region of other country. This resulted in further development of the LCA for securing larger market share in the Southeast Asia region. Under such of the fierce competition, how to provide high quality service to satisfy and create loyal customers is the core competitive advantage for LCA's profitability and sustainable development.

Thailand's LCA growth is proportional to its tourism counterparts. Nevertheless, the competition remains a robust feature of the airline industry and factor influencing the raise of LCA in Thailand is undoubtedly fascinating to study. Hence, the objectives of this study are to explore the customers' determine factors on purchasing decisions of choosing Low Cost Airline in Thailand and to examine the effect of service quality and price on passengers' satisfaction and loyalty towards Thai Low Cost Airline.

## **Literature Review**

*Service Quality* Gronroos (1984) presented the first model to measure service quality, however, service quality is an elusive construct that involve personal perspective of the consumers during the interaction between the customer and employees for customer 's convenience (i.e. customer's enquiry regarding the product they are purchasing or solve problems for the customers). Following the first definition of the model, Parasuraman et al. (1985) regard service quality as "customer perceived service quality as a global judgment or attitude related to the superiority of a service relative to competing offerings." An investigation by Chang and Yeh (2002) demonstrates that although the price was the dominant factor in LCA, service quality also has moderate effect on customer's decision. On that account, enhancing service quality is a paramount factor for an industry to have their competitive edge over the competitor (Gilbert & Wong, 2003). Moreover, service quality is the excellent service that meets or exceeds customers' need, hence, creating customer satisfaction and customer loyalty (Chaisompon, 2006).

Parasuraman et al. (1985) modifies SERVQUAL model adapting its core structure to airlines industry and presented five dimensions categorized according to their function and definition as follows:

**Tangibility:** The external physical appearances of the facilities or the equipment of the aircraft. For example, seating structure (i.e. seating space/leg room and seating comfort), cleanliness, on-board services (hot meal, magazine, and newspaper), and overall environment of the cabin (decoration of the aircraft and lighting).

**Reliability:** A consistency in exercising their services, i.e. on-time aircraft departure and arrival (on-time performance) (Gabbott et al., 2006). Passenger regards on-time performance is crucial to their planned schedule after disembarked from the airport. Hence, aircraft delays negatively effect reliability.

**Responsiveness:** The willingness to interact and asserted to solve passenger's problems create an impression that the industry in willing to 'go an extra mile' for the customers, that significantly brings positive image to the airline. For example, customer's special delivery (firearms and pets), flight schedule modification, baggage loading, and ensure that the customers will receive a promptly feedback (Gabbott et al., 2006).

**Assurance:** This refers to an ability to maintain airlines competence, credibility, confidence regarding passenger's safety and security. The dimension also known as reputation of the industry as unsafe airlines has diminished reputation (Gabbott et al., 2006).

**Empathy:** An ability to relate and form connection with the customers. This factor in the training and human management of the industry to make an effort to understand the consumer's point of view (Gabbott et al., 2006). For example, providing a passenger with appropriate meal according to their preferences (vegetarian meal).

**Price:** Pricing strategies had been changed and developed in the airline sector (Porter, 1996) and through intermediation. Consequently, the use of aggressive pricing strategies that yield cheaper airfare to the customers had been utilized by the low cost airline due to economies of the density of low cost airline industry (Hofer, Windle, & Dresner, 2008; Kumar, 2006). Dibb, Simkin, Pride, and Ferrell (2006) noted that a customer's assessment of price is determined by the perceived values of its offering.

**Customer Satisfaction:** The most simplistic terms customer's satisfaction refers to the feedback of the customer between the product they get and their expectation. The greater the differences the greater the negative customer's satisfaction. In a sense, highly promoted product (high expectation) with lacking customer's perceived value will leads to dissatisfaction.

**Customer Loyalty:** There are many definitions to be said about customer loyalty studies by many researchers. For an airline, customer loyalty is significantly goals in achieving relationship marketing and services and could increase the profitability of a company. Oliver (1999) defined customer loyalty as "a deeply held commitment to re-buy and re-patronize a preferred product or service constantly in the future despite situational influences and marketing efforts having the

potential to cause switching behavior.” Therefore, customer loyalty could be seen as a valuable source that assists the company in creating an effective plan for continued sustainable growth.

**Related Researches:** A recent research investigated whether the quality of service and price influence customer’s satisfaction on commercial airline service industry (Mahmud, Jusoff & Hadijah, 2017). The investigation’s feedback (N = 310) indicate that service quality has no significant effect on customer satisfaction and loyalty. Mahmud, Jusoff, and Hadijah explained that customer judges their satisfaction according to the quality of flight and has no correlation with emotion. Along similar context, the ticket price has no adverse influence on customer satisfaction. This reveals that price paid by the customer does not affect the satisfaction. However, the dissatisfaction of the customer could arise if there is not a match for the quality of service the airline presented. In contrast, other empirical results indicate that price significantly effects negatively to customer loyalty and customer satisfaction is positively associated with customer loyalty (Zahari, 2011; Curry & Gao, 2012). This can be concluded that the customers pay the price in accordance with expectation without prior satisfaction. According to their purchasing power, they become loyal customers for the price valued. Moreover, customers’ satisfaction significantly influences customer loyalty.

Based on the conceptual framework below, which had been modified and developed from the previous study of (Mahmud, Jusoff & Hadijah, 2017) and (Hanum Amiruddin, 2013). The framework that this researcher use was based on SERVQUAL model for service quality. However, the study focuses on the Full commercial flight services industry not a low-cost airline. While the other study reviewed price is the top factor that will affect and influence customer loyalty (Hanum Amiruddin, 2013). Both studies suggested passengers’ perceived service quality of airline carriers was based on the SERVQUAL instrument. Hanum Amiruddin, (2013), noted that the relationship between service quality and price towards customer loyalty but satisfaction was not the primary consideration. For this research, the author developed a framework by adopting these two studies which mainly for research implications in order to find the effective factors for the development of passengers. Service qualities studies does help makes the airline business better and could persuade more customer commitments.

The relationship between Service Quality and price towards customer satisfaction and customer loyalty does exist proven by the researchers. Thus, considering the above discussion and the developed framework, the following hypotheses are proposed:

- H1: Service quality has a positive and significant effect on customer satisfaction
- H2: Service quality has a positive and significant effect on customer loyalty
- H3: Customer satisfaction has a positive and significant effect on customer loyalty
- H4: Price has a positive and significant effect on customer satisfaction
- H5: Price has a positive and significant effect on customer loyalty

## **Methodology**

Data analysis Statistical software IBM SPSS statistic 21 was used to analyze the coded data then processed and collected the result as percentage and means. The coded data was analyzed through multiple regression to predict the degree of influence and the significance of each variable. In the

case where multi collinearity is presented, linear regression cannot be accurately predicted. Afterwards, we re-evaluate relationship between dependent variables which includes service quality, price, and independent variables which includes passenger satisfaction and passenger loyalty to demonstrate the differences between the total respondents' perspective on the relationships between customer's satisfaction and loyalty on price and service quality.

## Results

The researcher used inferential statistics to analysis the dependent variable by Multiple Regression. We have collected the survey to cover the objective of the study. The result from the 471 respondents has consisted in 3 parts as follows:

Factors	Mean	Std. Deviation	Correlation with Satisfaction Total	Correlation with Royalty Total
Overall average	4.22	.75	1.000*	1.000*
Service quality:				
Tangibles	4.06	.73	.330*	.342*
Reliability	4.23	.73	.470*	.497*
Responsiveness	4.12	.79	.603*	.524*
Assurance		.69		
Empathy	4.31	.86	.555*	.530*
Satisfaction	3.97	.73	.559*	.551*
Loyalty	4.28	.73	-	-
Price	4.29	.74	-	-
	4.52		.542*	.530*

Figure 1 Summary of descriptive statistics and correlation results. (\*p < .001).

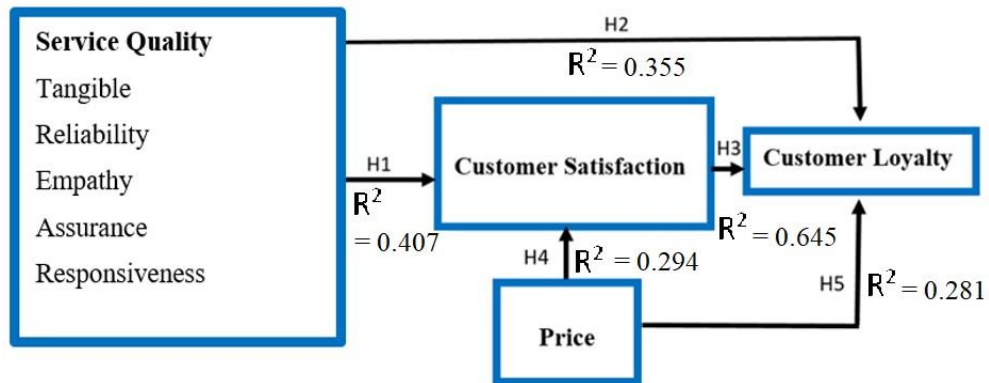
Figure 1 presents the summary of the descriptive statistics and correlation. Service quality is significant correlated with customer's satisfaction, especially on responsiveness ( $r = .603$ ,  $p < .001$ ), assurance ( $r = .555$ ,  $p < .001$ ), empathy ( $r = .559$ ,  $p < .001$ ), and price ( $r = .542$ ,  $p < .001$ ). Similarly, there is a significant relationship between service quality and customer's loyalty, notably on responsiveness ( $r = .524$ ,  $p < .001$ ), assurance ( $r = .530$ ,  $p < .001$ ), empathy ( $r = .551$ ,  $p < .001$ ), and price ( $r = .530$ ,  $p < .001$ ).

*Analysis and Discussion*

		R Square	df	F	Sig.
Service Quality Vs. Customer Satisfaction	Regression	0.407	5	62.822	.000
	Residual		458		
Service Quality Vs. Customer Loyalty	Regression	0.355	5	50.364	.000
	Residual		457		
Customer Satisfaction Vs. Customer Loyalty	Regression	0.645	1	836.993	.000
	Residual		460		
Price Vs. Customer Satisfaction	Regression	0.294	1	193.735	.000
	Residual		465		
Price Vs. Customer Loyalty	Regression	0.281	1	180.948	.000
	Residual		463		

**Figure 2 Overall regression analysis**

From the investigation, we found that customer satisfaction and customer loyalty is interlinked and predicted 65% ( $F(1, 460) = 836.993, p < .001$ ) of the factor. Following by service quality and customer satisfaction, where 41% ( $F(5, 458) 62.822, p < .001$ ) of the variable predicted the independent variable. Unremarkably, the regression relationships of price with customer’s satisfaction and loyalty predicted were approximately 30% influential.



**Figure 3 Conceptual Framework of hypothesis and its result**

H1: Service quality has a positive and significant effect on customer satisfaction

The respondents were asked to point out the degree of their agreement or disagreement to measure the relationship between service quality and customer satisfaction on a five-point Likert scale. The result indicates that service quality had a significant effect on customer satisfaction.

H2: Service quality has a positive and significant effect on customer loyalty The result indicates that service quality had a significant effect on customer's loyalty.

H3: Customer satisfaction has a positive and significant effect on customer loyalty

The linear regression result indicates that customer's satisfaction had a significant effect on customer's loyalty.

H4: Price has a positive and significant effect on customer satisfaction

There is a small positive but significant relationship between price and customer's satisfaction.

H5: Price has a positive and significant effect on customer loyalty

There is a positive and significant relationship between price and customer's loyalty. The hypothesis proposed in the investigation pointed out that the relationship exist.

Overall, our analysis found that 41% of service quality can be predicted for customer's satisfaction. Similarly, 36% of the customer's loyalty can be predicted by service quality. Of the five dimensions of the service quality (tangible, reliability, responsiveness, assurance and empathy), the dimension "responsiveness and assurance" were mainly found to be most influence which predict customer's satisfaction and empathy and responsiveness quality on customer's loyalty. This indicates that the assistance and the competence of the employees to the customer are indispensable to satisfaction and loyalty. Additional, the ability of the employees to communicate and express empathy is essential to customer's loyalty.

On the other hand, the direct relationship between price and customer's satisfaction and loyalty exist, however, the limited effect was demonstrated. This is inconsistency with other empirical research (Voss et al.,1998; Akamavi et al., 2014). According to Akamavi et al. (2014), the price paid by the customer necessarily affect the level of satisfaction that they experience. It means that when prices have increased, the customers are unsatisfied. On the contrary, when the price is reduced, the customer is more satisfied. Thus, the fluctuations prices paid by the customer significantly influence customer satisfaction. However, this is not the case in our investigation. We suspected that the competitive market of LCA in Thailand impacted the price variable, subsequently led to extremely low airfare and devalued the price factor. Hence, the price was not an influential factor (approximately 30%) as other studies estimated.

The study found that service quality and price tends to be a mediator of the customer's satisfaction/loyalty. Furthermore, customer satisfaction can also act as a connective between

service quality on customer loyalty. This study supports the theory advanced by Caruana *et al.* that customer satisfaction can strengthen or weaken the influence given by the quality of service on customer loyalty. If customer satisfaction tends to be connective between service quality on customer loyalty as stated by Caruana *et al.*, the finding is evident of that the service quality is a significant influence on customer satisfaction, which in turn is also significant on customer loyalty.

The outcome of this research shows that the customers perceive the quality of services provided by Thailand's aviation services industry is in accordance with what they expect. No gap between feeling and expectations. This simply translate into that the aviation services industry has been providing quality service to the customers who conform to their expectations so that quality of service is intended to create customer satisfaction (Ostrowski *et al.*, 1993). On the one hand, the results of this study conform and have similarities with the results of previous studies, especially its positive relationship between service quality and customer's satisfaction and loyalty to price (Voss *et al.*, 1998). On the other hand, we found that price was not the determining factor in choosing the LCA in Thailand. Because of the time frame, locations and numbers of samples as well as environmental factors results in the different findings in this study are also different practical, therefore this study has its peculiarities on the timeframe and as well as a limitation.

## **Conclusions**

Gudmundsson, Oum, and Unal (2005) are studying and investigating how and if LCA can successfully establish themselves within a traditional network of airline structure. Notably, the failure or success of LCA in Thailand is very attractive subject due to Thai's airline market is in the fierce competitions among the existing and newly emerging LCA. Customer satisfaction is the essence for LCA to be competitive and established successfully in both short term and long term in order to grow sustainably. Moreover, in this highly competitive market, customer retention is extremely considered critical. Consequently, it is necessary to assess the passengers' perceived service quality when using LCA. This is a proven as efficient ramification implication for LCA marketers for settling marketing strategies and service management policies.

To summarize, the findings of this research shows some similarities with the previous studies. Among the five SERVQUAL dimensions, 'responsiveness' has the strongest influences for customer's satisfaction while 'empathy' has the strongest influences on customer's loyalty. Among the five dimensions 'reliability' had the lowest level of influences in passengers' loyalty. Understanding passengers' specific needs level was the law as well as giving individual attention to passengers. Additionally, the direct relationship between price and customer's satisfaction and loyalty exist, however, the limited effect was demonstrated. The investigation pointed out the price and service quality have the most significant effect on satisfaction and loyalty. Results of this study concluded that the quality of service that has been examined similarly to the results of previous studies in which the quality of service associated is positive and has a significant effect on customer satisfaction and loyalty. The price paid by the customer has a positive and significant impact on customer satisfaction as similar. With the prices that meet the quality of service dimensions, it will lead to customer satisfaction. On the side of the empirical result, the price paid by customers is positively and significantly related to its effect on customer loyalty. It means that when customers pay the price by expectations with prior satisfaction, they become loyal customers for the price valued according to their purchasing power. Also, customer satisfaction gives significant positive



impact on customer. Repurchasing the services results from customer's satisfaction. Thus, customer loyalty played an important role.

There will be a recommendation on positive things about the flight services offered by the airline to the passengers. Based on the result of this research, there are several recommendations suggested.

Firstly, LCA should improve responsiveness in order to gain passengers' satisfaction. Also, responsiveness level needs to be improved since it reflects how airline pays attention and cares to each customer which are the most crucial tool in this competitive business world. LCA should improve in flight delays and try to meet passengers' responsiveness. Valuing the customers' comments is another important feature to satisfy the customer. Giving the passengers prompt services, staff shows a willingness to assist and let the customers know when will service be performed will increase passengers' satisfaction. At the same time, the company must try to understand the customers as they are becoming more knowledgeable and more demanding. The researcher recommends improving competitiveness, customer satisfaction, and loyalty aviation services industries through improving the quality of services associated with the right pricing strategies.

Secondly, according to the findings, empathy factors have to be more focused and need to be all fulfilled. Empathy shows that the customer service of LCA doesn't meet or satisfy the needs of customers enough. Problems such as baggage handling, flight delay, reservation services, online booking services and so on need to be handled in a quick manner by the service personnel to satisfy the need of customers and to avoid the customers switching to other airline services. Likewise, in order to build the loyalty of the customers, customer service is strongly recommended.

Thirdly, LCA have to set the right pricing strategies which are a discounted price or prices below the competitors. From the results of this research, it also implies that the cheap price and low fares does attract customer to purchase such tickets. Also the quality and price need to be reasonable then customers will certainly feel satisfied and be and become loyal to an airline, which would likely to come back and reuse again.

This research has proven that service quality and price have significant and positive relationship towards customer satisfaction and loyalty in LCA. Low cost airline should emphasize on each service quality such as empathy, responsiveness and the rest total of five dimensions along with the reasonable price. This is to ensure that LCA gives the best to its passengers to compete efficiently with another low cost airline. A proper understanding of customer satisfaction and loyalty can thus be seen to have an extraordinarily high monetary value for the Thai aviation industry in a competitive environment. Hopefully this research can be used and developed into an appropriate strategy to improved Thailand aviation business.

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