



FACTORS AFFECTING CUSTOMER PREFERENCES WHILE CHOOSING A LOW COST AIRLINE

T. Manivasugen¹ & Rista Nova²

¹Faculty of Economics, President University, Bekasi, Indonesia

²Faculty of Economics, President University, Bekasi, Indonesia

Abstract

The recent success of Low Cost Carriers in the airline market has influenced the emergence of a growing number of airlines trying to copy the strategy of the start-up Low Cost Carriers (LCC). It seems surprising that low cost carriers manage to encourage new demand which means that the carriers do not take customers away from traditional carriers, but attract new customers especially in the field of business, travel and tourism. This research studies factors affecting customer preferences while choosing low cost airlines in Indonesia.

Key Words: *Customer Preferences, Low Cost Carriers, Purchase, Indonesia.*

Introduction

In Indonesia, there are ten big airlines that lead the number of air passengers for domestic flights based in Soekarno - Hatta Airport International, Jakarta in the first semester 2012 as illustrated from the Figure 1.2 below; PT Lion Air Mentari with 13,9 million passengers, PT Garuda Indonesia with 7,8 million passengers, PT Sriwijaya Air 3,9 million passengers, PT Metro Batavia (Batavia Air) with 3,5 million passengers, PT Wings Abadi Air 1,2 million passengers, PT Merpati Nusantara Airline 1,1 million passengers, PT Indonesia AirAsia 882,480 passengers, PT Trigana Air with 466,085 passengers, PT Kalstar Aviation 269,659 passengers, and last is PT Travel Express Air 164,510 passengers. (Source: Viva News, 2012)

Generally, the basic idea of low cost airline model is that airline cuts down the unnecessary costs and frills from its product offering and thereby minimizes its costs of operation and management, and offers competitive fares. Some of the most common cost savings include using the internet booking online and promo tickets in distributing airline tickets. The lower the price an airline can offer the higher the possibility of increasing the ticket sales.

Low cost airlines use complex yield management to capitalize the demand and maximize the revenues. Airlines use differentiated pricing to offer varying prices to different segment of travelers simultaneously. Myron (2002) finds the factors which influence price are the days remaining until departure, the booked load factor, the forecast of total demand by price point, competitive pricing in force and variations by day of week of departure and by time of day.

Statement of Problem

Based on the background of the study, the statement of problem can be formulated as follows;

1. What are the dominant factors other than price and least preferred factors that influence the customer preferences while choosing among low cost airlines?
2. What are the most preferred and least preferred airlines in Indonesia and the factors that make them?
3. What is the customer perception on services provided by different low cost airlines in Indonesia?

Significance of Study

The knowledge about the Low Cost Carriers (LCCs) will help the airline companies to prioritize their services which are preferred by customers.

Theoretical Framework

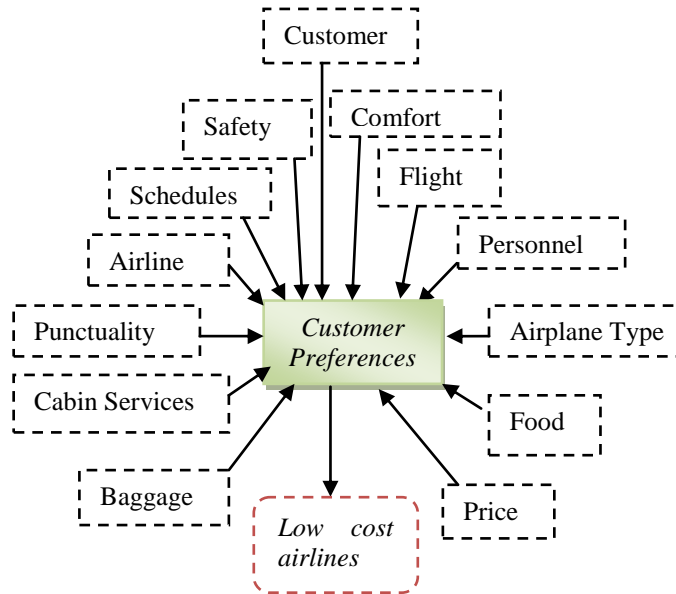


Figure 1: Theoretical Framework

Literature Review

Various factors may affect pricing and traffic on air transport industry, such as the efficiency of hub and spoken operational system, the entry of low-cost airlines, the extent of market concentration, and competition from other modes of transportation, etc (Vowles, 2000; Wang, 2005).

According to Proussaloglou and Koppelman (1995), selection is influenced by a number of factors (e.g., price, convenience, quality of customer service, etc.), all of which must be critically examined in order to implement the appropriate revenue management tools and strategies. These factors generally make the companies undercut the ticket price of full cost carriers by nearly 50%. Therefore, it is necessary to introduce several new concepts in the route management, maintenance, flight plan, distribution and service management.

Low Cost Carrier

The original low cost model is designed based on this concept and as outlined by Alamdari & Fagan (2005, p.378), the original South West Low Cost Carriers' model consists of the following: fares, network, distribution, fleet, airport, and staff.

Factors on Customer Choice

Factors on customer choice have been studied by Kim & Lee (2000) which mentioned several important attributes as follow; scheduling, internet booking/reservation, ticketing services, the boarding process, price of air ticket, security, communication, services information, cabin services, in-flight meals, image of airline, punctuality and types of airplanes.

Methods

The main methods on this research are questionnaire survey and statistical analysis. The statistical analysis would form the basis for interpretation and also findings which would in turn facilitate conclusions.

Sampling Design

The sample size was determined using the Slovin's formula (Sekaran, 1992 cited in James Monday):

$$n = \frac{N}{1 + (Ne^2)}$$

Where n is the sample size, N is the population size, and e is the margin of error. The researcher applied 10% margin of error and a population of 1432 respondents.

$$n = \frac{1432}{1 + (1432 (0.1)^2)}$$

$$n = \frac{1432}{15.32} = 93.47 \approx 93 \text{ respondents}$$

In this research, the technique of sampling used is purposive sampling method which is respondents who frequently used national airlines and low cost flights. The minimum sample consists of 93 respondents, but the researcher spread out 150 questionnaires and took 140 respondents as the sample size.

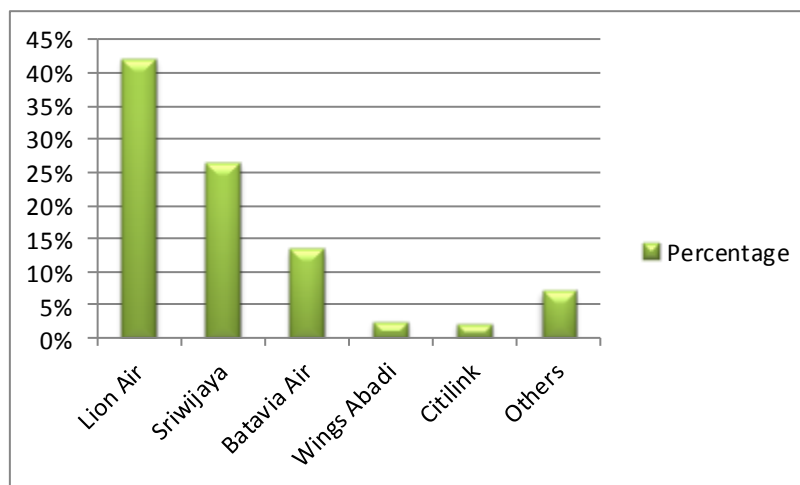
Interpretation of Results

The questionnaire result is shown as below:

Frequency of Respondents Using Low Cost Airlines

<i>Attributes</i>	<i>Distribution</i>	<i>Frequency</i>	<i>Percentages</i>
<i>Travelled in the said airlines in the past 1 year</i>	Yes	123	87.85%
	No	17	12.14%
Total		140	100%
<i>How many times fly in the past 1 year (LCAs)</i>	More than 3 times	74	52.85%
	Three times	19	13.57%
	Two times	17	12.14%
	Once	22	15.71%
	Never	8	5.71%
Total		140	100%

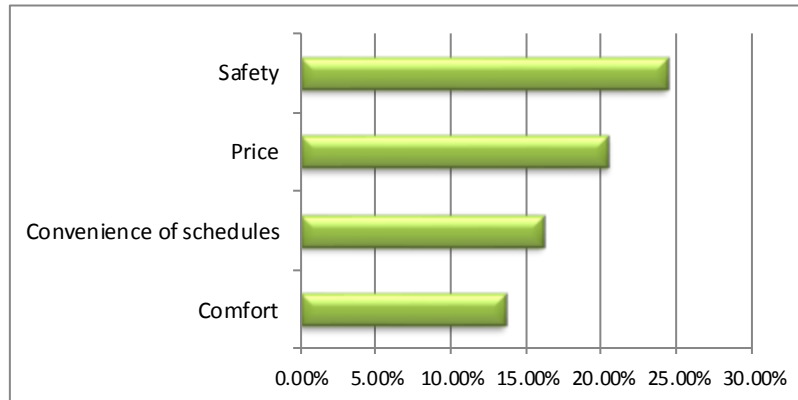
Low cost airlines that customers have travelled in



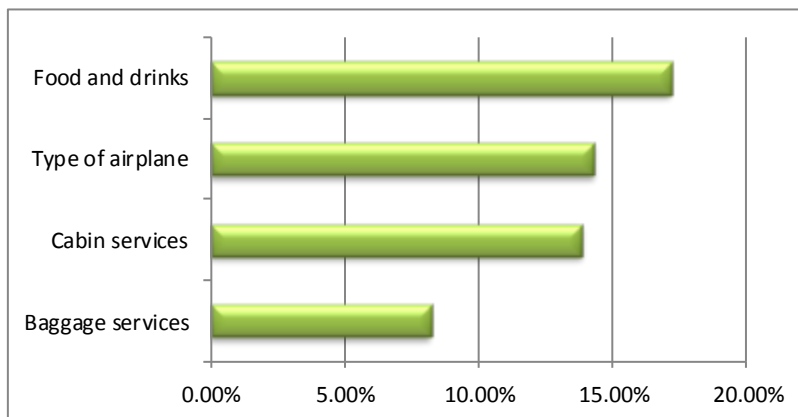
Percentage of Most Important Factors

<i>Factors</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Price	57	20.35%
Comfort	38	13.57%
Safety	68	24.28%
Convenience of Schedules	45	16.07%
Airline images	11	3.92%
Personnel behavior	9	3.21%
Type of airplane	2	0.71%

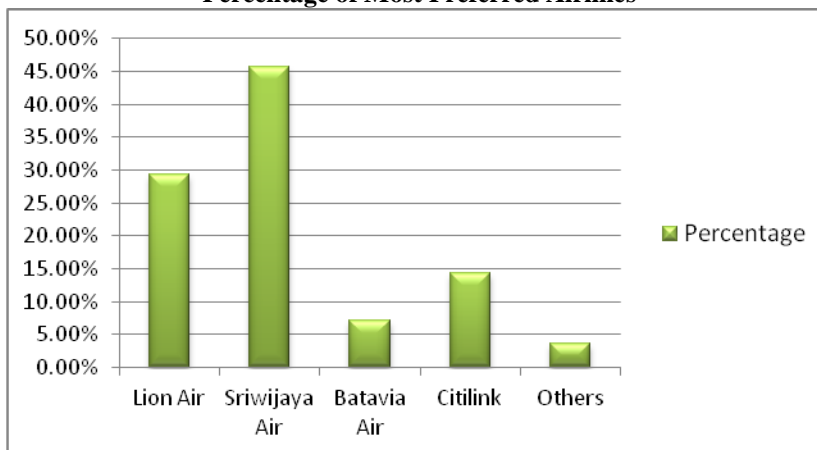
Baggage services	19	6.78%
Cabin services	2	0.71%
Flight network	4	1.42%
On time performances	23	8.21%
Food and drinks	2	0.71%
Total		100%

Percentage of Most Preferred Factors**Percentages of Least Important Factors**

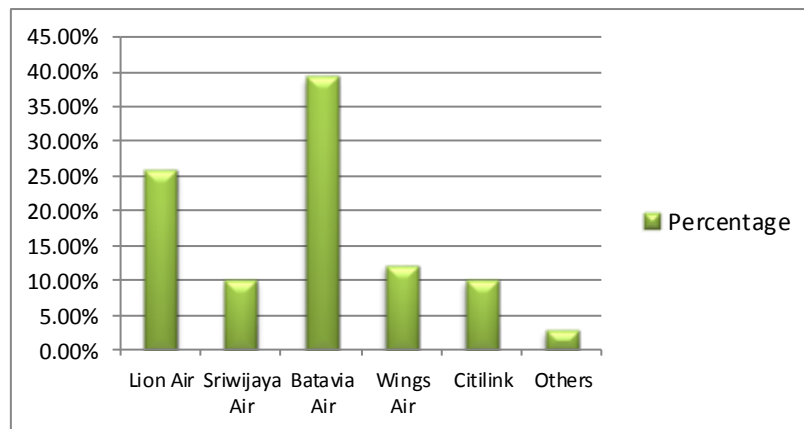
<i>Factors</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Price	15	5.35%
Comfort	18	6.42%
Safety	10	5.55%
Convenience of Schedules	17	6.07%
Airlines images	27	9.64%
Personnel behavior	22	7.85%
Type of airplane	40	14.28%
Baggage services	23	8.21%
Cabin services	39	13.82%
Flight network	14	5%
On time performances	7	2.5%
Food and drinks	48	17.14%
Total		100%

Percentage of Least Preferred Factors**Percentage of Most Preferred Airlines in Indonesia**

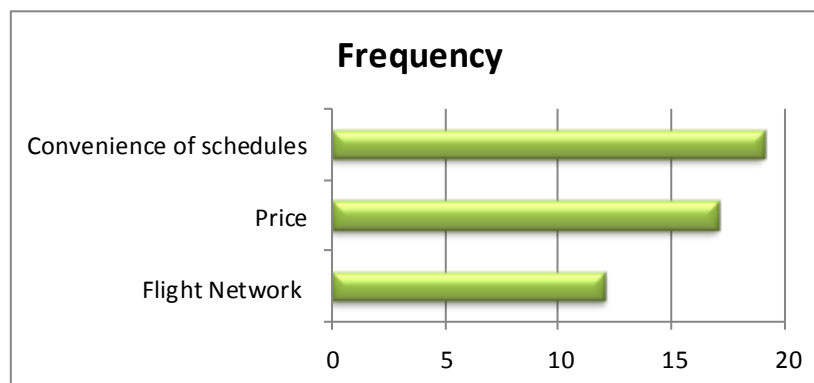
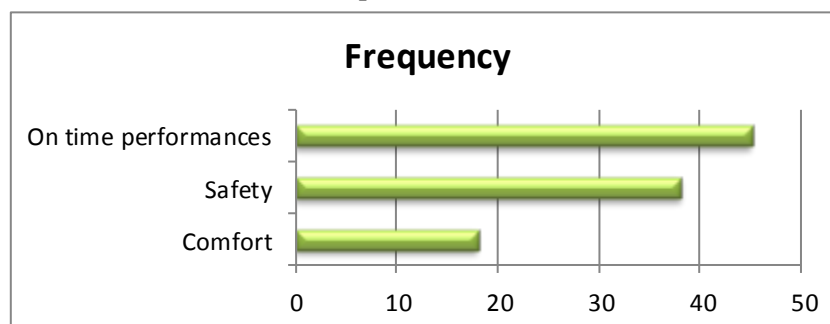
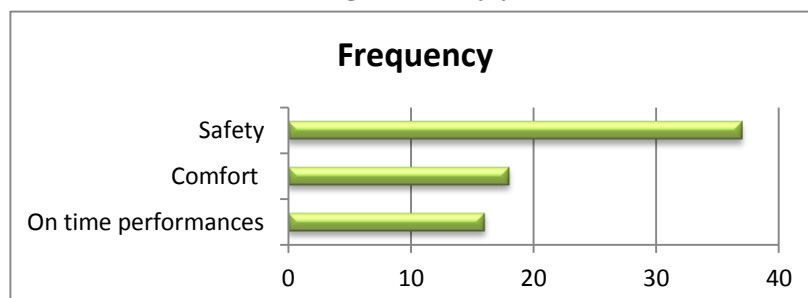
<i>Airlines</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Lion Air	41	29.28%
Sriwijaya Air	64	45.71%
Batavia Air	10	7.14%
Wings Air	0	0
Citilink	20	14.28%
Others	5	3.57%
Total	140	100%

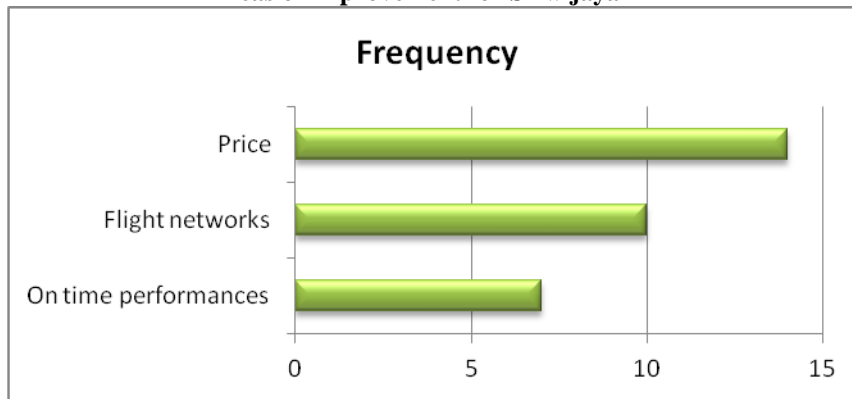
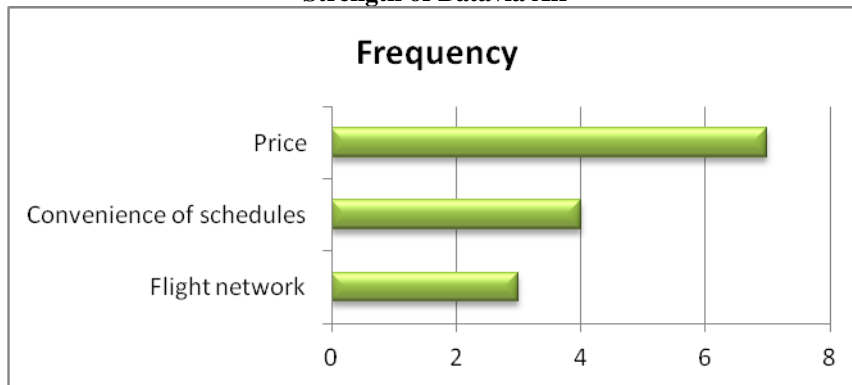
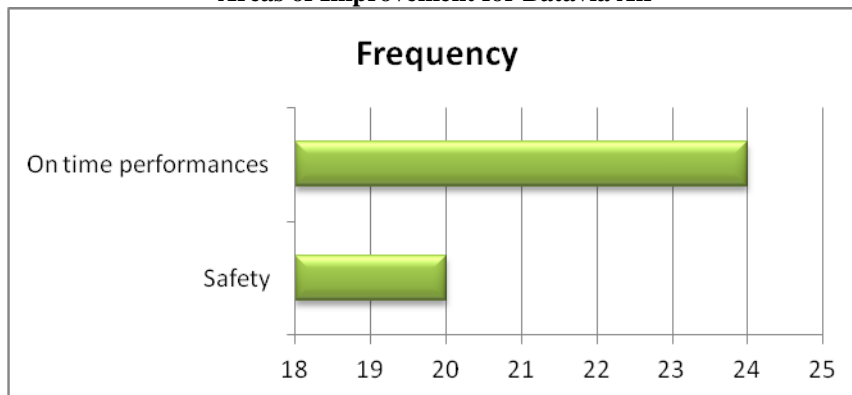
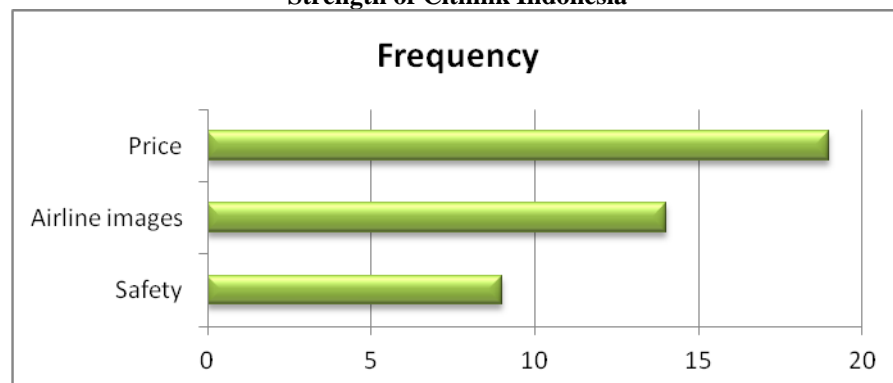
Percentage of Most Preferred Airlines**Percentage of Least Preferred Airlines**

<i>Airlines</i>	<i>Frequency</i>	<i>Percentage (%)</i>
Lion Air	36	25.71%
Sriwajaya Air	14	10%
Batavia Air	55	39.28%
Wings Air	17	12.14%
Citilink	14	10%
Others	4	2.85%
Total	140	100%

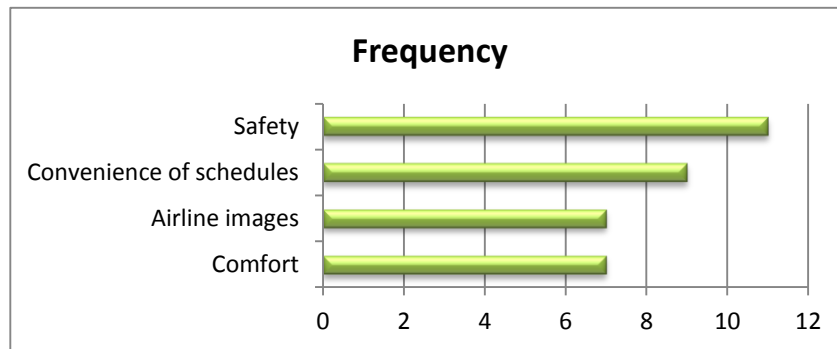
Figure 4.8 Least Preferred Airlines

Based on Airlines:

Strength of Lion Air**Areas of improvement for Lion Air****Strength of Sriwijaya Air**

Areas of improvement for Sriwijaya Air**Strength of Batavia Air****Areas of Improvement for Batavia Air****Strength of Citilink Indonesia**

Areas of Improvement for Citilink Indonesia



Conclusion

Based on the discussion and analysis of the data, the researcher concluded some points in the following lines;

1. Safety, convenience of schedules, price and comfort are considered as the most important factors in order rank by customer preferences of low cost airlines in Indonesia.
2. Baggage services, on time performance and airline images are considered moderately important factors.
3. Food and drinks, type of airplane, cabin services and handling baggage services are considered as the least important factors as compared to other factors.
4. Sriwijaya Air is considered as the most preferred low cost airline followed by Lion Air Indonesia, Citilink Indonesia and then Batavia Air. Batavia Air has proved to be the least preferred airline in Indonesia, particularly in domestic flights.
5. Wings Abadi Air did not get any strong points from respondents.

The results are respondents preferred safety as main consideration besides prices. It can influence because there were many accidents experienced by Indonesia's airlines recently. In response to this, customers started to think selectively and consider about safety when choosing a low cost airline.

The conclusion was clear from the research that airlines cannot compete on price alone in the long run since safety becomes a predominant factor in Indonesia. There are some other factors which also determine the value of quality services and make respondents feel more satisfied than the price factor.

Recommendation

1. The price factor cannot be the main strength for low cost airlines to survive in the long run. In a long term business, value can be stronger than price; airline companies must provide services that are more memorable and focus on quality.
2. This research allows the airlines companies to see the expectancy level of customers for low cost carrier services attributes, and start to prioritize the differentiated value through different services attributes based on factors explained in this research. Then, company can deliver the values and improve the customer satisfaction. The research found that service quality is important for low cost carriers to be used as the main strength to increase profit.
3. Safety and other factors showed as the more important factors in customer preferences for low cost carriers than price. Airline companies should improve service quality and deliver values in order to make customers feel more satisfied.

Reference

- Alamdari, F. and Fagan, S. (2005) *Impact of the adherence to the original low-cost model on profitability of low-cost airlines*, *Transport Reviews* 25, 3: 377-392.
- Kim, D.S. and Lee, T. H. (2000). *A study on importance difference of airlines' selective factors according to level (high-low) of involvement*, *Journal of Tourism Sciences*. 24(2), 213-233.
- Prousaloglou, K. and Koppelman, F. (1995). "Air carrier demand: An analysis of market share determinants," *Air Transportation Journal*, 22, 371-388.
- Sekaran, U. 1992, *Research Methods for Business: A Skill Building Approach*, John Wiley, New York
- Smith, Myron J. (2002). *The airline encyclopedia, 1909–2000*. USA: Scarecrow Press.
- Vowles (2000), The effect of low fare air carriers on airfares in the US, *Journal of Transport Geography*, 8 (2000), pp. 121-128
- Wang (2005), *The effect of a low cost carrier in the airline industry*, Paper presented at MMSS Honors Seminar, United States
- Viva News, 2012