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A Conceptual Model of Customer Satisfaction: Moderating Effects of Price Sensitivity and Quality Seekers in the Airline Industry

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ABSTRACT

Passenger satisfaction and loyalty are crucial for success in the airline industry. To achieve customer satisfaction and loyalty, it is important that airlines provide high-quality services. This paper examines different elements of service quality in the airline industry, including the moderating effects of price sensitivity and quality seekers on the level of passenger satisfaction. The moderating effect of price sensitivity on passenger satisfaction has received less consideration in the existing literature. Service quality has been divided into three main categories: preflight, in-flight, and postflight services. This paper provides a conceptual framework for assessing the moderating effects of price sensitivity and service quality on passenger satisfaction. The study was conducted by performing a literature review of existing studies of the topic and related issues. Information was obtained from journal articles. The literature was reviewed for accuracy, relevancy, and other validating elements. The findings reveal that the service quality of all three categories has a positive effect on passenger satisfaction. The results indicate that passenger satisfaction consequentially translates to passenger loyalty (Elkington, 2004). The findings indicate that price sensitivity and quality seekers have a significant impact on the relationship between service quality and the level of passenger satisfaction. High price sensitivity reduces the positive effects of service quality on passenger satisfaction. Low price sensitivity increases the positive effects of service quality on passenger satisfaction. Existing literature agrees that customer satisfaction is subjective and varies across consumers. Therefore, analyzing the correlation between service quality and satisfaction has been a complex task (Briliana, 2018).

KEY WORDS: Service quality; Customer satisfaction; Customer loyalty; Price sensitivity; Quality seekers; Airline.

JEL Classification: M310, M10, L10.

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1. Introduction

The number of airline passengers has grown significantly over the years. Traveling by air is no longer a luxury. Since the introduction of several airlines, ticket prices significantly decreased as a result of competitive pressure. Globalization and international trade increase the need for the global movement of goods and people. The demand for airline services is predicted to increase quickly. The lucrative market has attracted numerous players. Thus, an airline company needs to develop strong competitive advantages to survive intense competition (Rahman, Azad, & Mostari, 2015). Many companies compete on pricing, service quality, reputation, and many other factors. However, service quality remains one of the most fundamental and reliable competitive advantages in the airline industry (Wang, Lo, Chi, & Yang, 2004). Customers evaluate the service quality of an airline company by analyzing and reflecting on their encounters with both in-flight and front-line employees. The customers compare their expectations and actual encounters to judge the quality of service (Fodness & Murray, 2007). Service quality has positive effects on customer satisfaction. High levels of satisfaction, in turn, improve customer loyalty, which is critical for success in the modern business environment.

Today's airline industry is characterized by intense competition. Survival in the market demands delivery of the highest quality services. Service quality is largely responsible for customer satisfaction. A dissatisfied customer is more likely to switch to other airline brands. The customer may also talk negatively about the company, and this would be damaging to the company's reputation. Passengers in the airline industry are concerned about the reputation of a company. For this reason, many existing studies were conducted to determine the effect of service quality and customer satisfaction. Several studies have examined passenger satisfaction in the airline industry. The growth of the airline industry has significantly attracted the attention of scholars and experts. The level of satisfaction is subjective and differs among different passengers. For this reason, it is difficult to examine the relationship between service quality and customer satisfaction. However, the studies conducted have ignored the moderating effects of price sensitivity and quality seekers on customer satisfaction. Thus, this paper aims to examine the moderating effects of price

sensitivity and quality seekers on passenger satisfaction in the airline industry.

2. Literature Review

2.1 Service Quality

Customers have certain perceptions about the efficiency with which an organization delivers the services it provides. This perception is referred to as service quality. Quality service is that which meets the needs of customers. The quality of service should meet the expectations of consumers (Namukasa, 2013). Service quality is critical for the success of an airline company. The development of new information technologies, especially the Internet, has facilitated the formation of a new and better informed tourist who seeks offers that are exceptionally advantageous in terms of both time and money (Szopiński & Nowacki, 2014). Some airlines offer low prices to attract more customers. The strategy is effective, particularly in the airline industry where consumers appear to be more price sensitive. However, the low-cost carriers also need to invest in providing high-quality services. Poor-quality services lead a company to low performance and the inability to survive in a competitive market. Offering high-quality service is critical for success in the industry. In the airline industry, service quality is affected by the interactions between passengers and the staff of a given airline company. The industry offers a range of services to passengers. The services can be classified into the following three broad categories: preflight, in-flight, and postflight services.

2.1.1 Preflight Services

Preflight services are offered to passengers before they have the travel experience. Mostly, these services are rendered by front line employees. One service, in this case, is reservations and buying tickets. Passengers need simple and reliable procedures to book their tickets. They need all the information about ticket pricing and departure times. Most airlines now allow customers to make their reservations and buy tickets online (Fodness & Murray, 2007). Online reservation is a cheaper alternative for airlines. Furthermore, passengers receive check-in services. At this stage, the employees scrutinize the passengers' cargo and travel documents before they board the plane. Due to the ap-

plication of modern technologies, customers acquired a tool for comparing prices, which aids them in selecting the most advantageous offer from their point of view (Szopiński & Nowacki, 2015). Passengers need to check if services are accurate and consume a minimum duration of time. The next aspect of pre-flight services is a timely departure. Passengers expect their flights to depart at the time indicated by the company. Delayed departures force passengers to waste a significant amount of time at the terminal. Moreover, timely departure is critical for passengers to meet their deadlines. The convenient schedule is another aspect of in-flight services. The routes followed by a flight significantly determine whether or not it will be convenient to passengers. Passengers book flights that are consistent with their time schedules. This is because the passengers have different preferences for travel routes and time (Briliana, 2018). Another aspect of preflight services is the airline image. A successful airline company needs to have a good reputation and a strong brand image. A strong brand image in the airline company is critical, given the intense competition and increasingly intelligent consumers. The above factors determine the quality of flight services (Namukasa, 2013).

2.1.2 In-flight Services

It is necessary to consider in-flight services. These are services rendered to passengers while they are on board. Note that passengers spend more time on board. Airlines need to pay serious attention to in-flight services. The quality of in-flight services is influenced by several factors. The first one is the cabin staff service. The passengers expect responsive and empathetic services from the cabin staff (Fodness & Murray, 2007). The cabin staff also needs to be presentable and knowledgeable enough to respond to the passengers' demands. The staff should be seen as committed to ensuring the comfort and safety of the passengers. Another aspect of in-flight services is food quality. Passengers are served, especially if the journey is long. The quality of food can be assessed through the types of meals offered and the associated nutrients. Additionally, the food needs to be prepared in a manner those appeals to the tastes of the passengers. Passengers need to be served an adequate amount of food of their choice (Al-Rousan & Mohamed, 2010). Another aspect of in-flight service is airplane characteristics that cover a va-

riety of aspects. One of the elements is the comfortable of the seats. Passengers prefer comfort seats to minimize fatigue when traveling for long hours. The seats can be adjusted to various sitting positions to enhance comfort. Another aspect of airplane characteristics is the space between seats. More space allows room for comfort and vice versa. Other airplane characteristics involve the quality of materials, lighting, and aesthetics that would be appealing to the eyes of passengers (Fodness & Murray, 2007). Other elements of in-flight services are reading materials and video shows. Like in other transport means, service providers invest in entertaining their passengers while on board. Videos and music provide an effective entertainment for passengers. Additionally, some passengers prefer reading to listening to music and watching videos. Providing reading materials would help meet the entertainment needs of different consumers. Next, security constructs are another part of in-flight services. Passengers are concerned with the extent to which the airline company guarantees their safety while on board. Passengers need to know that they are traveling with security experts. The gas masks need to be availed and functional for all the passenger seats. Furthermore, there should be appropriate procedures in place to handle the emergency or security cases. The elements discussed above determine passengers' perception of service quality (Namukasa, 2013).

2.1.3 Postflight Services

It is necessary to examine postflight services. These are services offered to passengers after their traveling experience. There are several postflight services that are of concern to passengers. The first one is a timely arrival. Passengers expect the flight to arrive at its destination at the time specified by the airline company. Time, as mentioned earlier, is of vital essence to people who have urgent meetings or have to beat deadlines. A flight that arrives on time creates a reputation for reliability on the company. The other aspect of postflight services is the responsibility for delayed passengers. Sometimes, airlines experience delayed flights out of technical issues or weather conditions. In such cases, it is not necessarily the fault of the airline company. However, the airline company needs to take responsibility for delayed passengers in terms of accommodation and making other reservations (Fodness & Murray, 2007). Such actions

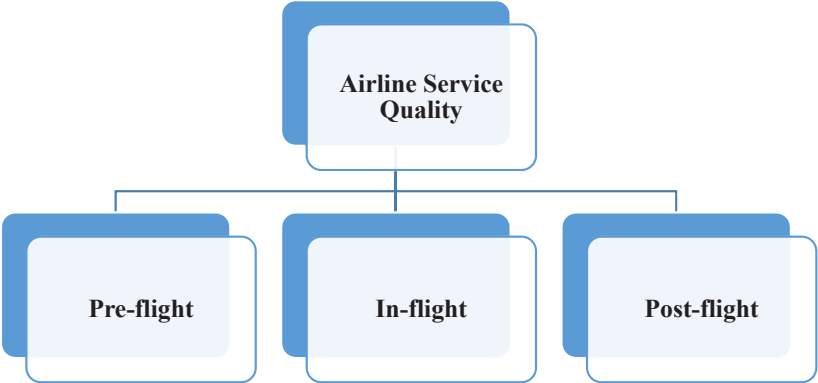


Figure 1 Airline Service Quality

Figure 1. Airline Service Quality

would communicate empathy and reliability of the company’s services. Another aspect of postflight services is the complaint system. It is normal for problems to arise in air traveling. Despite the challenges, it is a responsibility of the company to respond to them effectively. One way of responding to customers’ issues is by having an effective and reliable complaint system (Fodness & Murray, 2007). The system should be easily accessible and effectively resolve the issues of passengers.

Next is the behavior of staff after arrival. The passengers need to feel appreciated even after they alight from the plane. The staff should be seen as ready and willing to provide further assistance after arrival. For instance, the staff can assist by explaining directions, clearance procedures, and other services that passengers may need on arrival. Another aspect of postflight services is frequent flier programs (FFP). These are rewards and incentives offered to customers based on the frequency at which they use the services of a particular company. Passengers who are loyal customers of the company need to be appreciated. FFPs are mainly used to create customer loyalty. The ele-

ments discussed above determine service quality in the postflight category (Namukasa, 2013).

2.2 Passenger Satisfaction

Passenger satisfaction is a feeling that customers have when they use the service (Hai, Le Duc Toan, & Thuong, 2017). Depending on the situation, a customer can feel pleasure or disappointment with the service provider. A customer feels pleasure when the quality of service experienced exceeds his/her expectations. However, customers feel disappointed when the quality of service rendered falls below their expectations. In the airline industry and today’s business environment, companies need to invest more in realizing high levels of customer satisfaction. Consumers in the contemporary business environment are educated, have easy access to relevant information to make the appropriate purchase decisions, and demand value for their money. Satisfying such consumers will require airlines to first offer high-quality services (Hai et al., 2017).

2.3 Customer Loyalty

Another essential concept is customer loyalty. A loyal customer is one that is certain that he or she will re-purchase the services or products of a particular company in the future (Hai et al., 2017). The loyal customer repeatedly purchases from the company despite attempts of other competitors to influence him/her to switch brands. Competitors may try to lure loyal customers through advertisements, offering cheaper tickets, and other applicable marketing strategies. In the airline industry, frequent flier programs (FFP) are widely and effectively used to create customer loyalty. Customer loyalty has a positive correlation with high levels of satisfaction (Graham, Kaplan, & Sibley, 1983). Therefore, companies need to devise programs and strategies to ensure customer loyalty. This is important given the intense competition and the expounding effect of new entrants.

2.4 Price Sensitivity

Price sensitivity can be broadly described as changes in demand as a result of increasing or reducing the cost of a product or service. In the airline industry, price sensitivity refers to the changes in volumes of airline tickets purchased when prices vary. According to Thaichon and Quach (2016) passengers have different rates of sensitivity to price changes. As expected, low-income earners are more likely to have a high rate of price sensitivity than high-income earners. Price sensitivity also depends on the priority of passengers regarding different aspects of service quality. Passengers with high price sensitivity are more likely to shift to other airlines if the cost of tickets increases. Passengers with low price sensitivity will be reluctant to change their service providers when ticket prices slightly increase (Abdullah-Al-Mamun & Robel, 2014).

2.5 Quality Seekers

Quality seekers are a unique group of airline passengers. As the name suggests, their priority is receiving the highest quality of services (Petrovici, Ritson, & Ness, 2004). These consumers have more demands from airlines than other passengers (Khudhair, Jusoh, Mardani, & Nor, 2019). As evident, quality seekers are more likely to be high-income earners, implying that they also have low price sensitivity. Quality seekers, as mentioned earlier, are more likely to be educated, in-

formed, and intelligent. The company needs to make more efforts to satisfy these types of consumers.

3. Suggested Framework

3.1 Relationship between Service Quality and Customer Satisfaction

To analyze the relationship between service quality and customer satisfaction, services offered need to be divided into preflight, in-flight, and postflight services. First, it is necessary to consider the effects of preflight services on passenger satisfaction. Airlines need to consistently satisfy the needs and preferences of passengers. This will help in fostering long-term relations between the airlines and their customers (Wang et al., 2004). For these reasons, companies need to examine the effects of in-flight services on passenger satisfaction.

H1. The quality of pre-flight services has a positive impact on passenger satisfaction.

It is necessary to examine the impact of in-flight service quality on passenger satisfaction. The quality of services offered by flight attendants significantly influences the level of passenger satisfaction. The encounters of passengers with in-flight staff significantly reveal their rating of service quality. Passengers use their experiences with inflight staff to judge the quality of service offered. Passengers arrive at the judgments by comparing their expectations and actual traveling experiences. When conducting such an assessment, passengers examine a variety of quality elements. Note that services are intangible. This makes it difficult for airlines to identify the exact customer attitudes and perceptions towards services rendered (Kirmani & Rao, 2000), meaning that the employees of the company need to explain to customers the benefits of the services offered.

H2. The quality of in-flight services has a positive impact on passenger satisfaction.

Next, it is necessary to examine the impact of post-service quality on passenger satisfaction. Postflight services are similar to after-sale services in regards to products. Customers who experience a high level of customer satisfaction are more likely to re-purchase the company's services. As mentioned earlier, the quality of postflight services significantly influences the passengers' future intention to use and market the company's services repeatedly (Briliana, 2018).

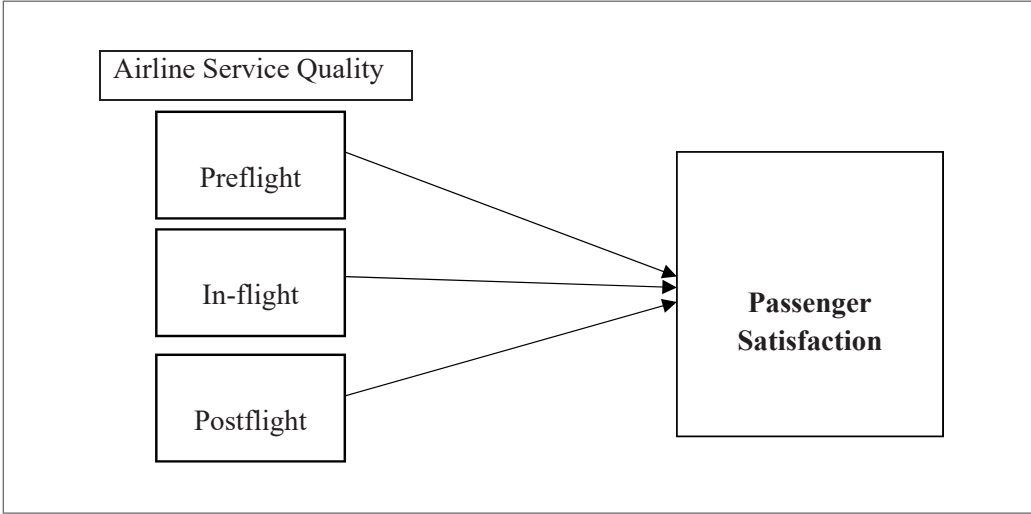


Figure 2. The Influence of Service Quality on Passenger Satisfaction

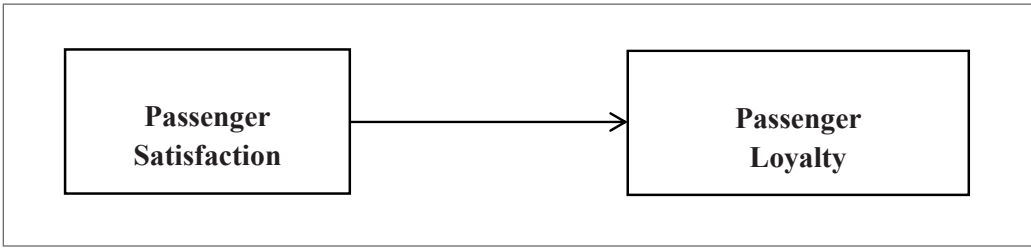


Figure 3. Airline Service Quality

H3. The quality of postflight services positively impacts the level of passenger satisfaction.

3.2 Relationship between Passenger Satisfaction and Loyalty

High levels of satisfaction translate to increased passenger loyalty. Customers are more likely to return to the airline company that consistently meets their expectations. As mentioned earlier, customer loyalty is a strong competitive advantage for airlines (Namukasa, 2013). This is particularly because of the intense competition. Another reason is the complexity in differentiating or comparing the quality of services provided.

H4. Passenger satisfaction has a positive effect on passenger loyalty.

3.3 Price Sensitivity and Quality Seekers as Moderators between Service Quality and Customer Satisfaction on Customer Loyalty

Low price sensitivity strengthens the correlation between service quality and passenger satisfaction. As mentioned earlier, this paper focused on examining price sensitivity, along with a variety of factors such as passenger loyalty and satisfaction. Different levels of price sensitivity of passengers are affected by several factors such as perceptions, needs, emotions, and intensity of competition. The literature review implies that passengers are more likely to reduce their rates of consumption of services in cases where the prices are significantly increased (Graham et al., 1983). A significantly high price means that the value of services for airline passengers will be reduced.



Figure 4. The Influence of Service Quality on Passenger Satisfaction

H5. When the customer is in the category of high price sensitivity, the relationship between service quality and customer satisfaction will be weaker, and when the customer is in the category of low price sensitivity, the relationship between service quality and customer satisfaction will be stronger.

Airlines stand to benefit largely when passengers are quality seekers. First, they have an opportunity to ask for premium prices when passengers are less sensitive to price. High-quality services significantly reduce the probability of a customer switching to other airlines. This has a strong correlation with the level of satisfaction. Higher levels of satisfaction significantly lower the probability of a customer switching to the competitors' services. However, lower levels of customer satisfaction significantly increase the chances that a customer will shift brands. When the quality of service is relatively high, the airline company can charge premium prices without having a significant effect on the demand of passengers (Briliana, 2018).

H6. When the customer is in the category of a high quality seeker, the relationship between service quality and customer satisfaction will be weaker, and when the customer is in the category of a low quality seeker, the relationship between service quality and customer satisfaction will be stronger.

4. Results and Discussion

The findings reveal that high-quality services improve the level of customer satisfaction. The results also indicate that passenger satisfaction consequently translates to loyalty. The results further reveal that price sensitivity has a moderating effect on the influence of service quality and passenger satisfaction. The findings have confirmed the first four hypotheses for the study. The results are also consistent with the evidence and ideas presented in the literature review. The results of the study have serious implications for airlines. Air travel companies should acknowledge that the quality of services is perhaps the strongest and most decisive competitive advantage in the industry. However, companies should also acknowledge the significant influence of price on the demand for their services. Low-cost carriers have a challenge in providing high-quality services. The model is focused on minimizing expenses. It is difficult for such companies to offer the highest quality of services while simultaneously charging low prices.

5. Conclusion

The investigation revealed that several variables of service quality determine the level of customer satisfaction. The discussion also implied that satisfaction should be measured from the perspective of consumers to obtain crucial insights into the demand for

a company's services. It is evident that pricing is an important tool for competition in the airline industry. However, the success of a pricing model depends on the customer's level of sensitivity to changes in price. Airline passengers with high levels of price sensitivity are more likely to shift their service providers. The opposite is true for passengers who are less responsive to increased prices. These customers are able and willing to pay premium prices as long as the quality is high. A reduction in the quality of services can cause quality seekers to shift to a competitor. Thus, an airline company should examine the nature of its consumers before selecting a pricing strategy. The rise of low-cost carriers provides insight into price sensitivity in the airline industry. Low-cost carriers have managed to stage serious competition against luxury carriers. The trend indicates that passengers in the industry are significantly sensitive to price changes. Luxury carriers should target passengers who are less sensitive to price. These types of consumers are quality seekers.

6. Limitations

As mentioned earlier, the level of satisfaction differs among passengers. This made it difficult to assess the impact of service quality on passenger satisfaction. However, the major elements of customer satisfaction were considered. The study did not investigate the numerous specific services offered by air travel companies. Moreover, the study did not examine service quality in specific classes such as economy and luxury.

7. Future Research

Airline industries operate with different models. Based on the model used, airlines can be categorized into different groups. For example, the model of low-cost carriers is focused on efficiency. However, luxury carriers have a model that prioritizes the quality of services. Future studies should examine the moderating effect of price sensitivity on the satisfaction levels of their customers. Price sensitivity may have different effects depending on the model used by a specific company. Another area that future studies should investigate is outsourcing. Airlines are increasingly outsourcing non-core activities and products. Outsourcing means that the company's total control over the quality of its services is difficult to achieve (Briliana, 2018). The studies should investigate the effects of outsourcing on

the quality of services offered by the company. Future studies should also investigate the effect of customer satisfaction in countries at different levels of development. Consumers in developing countries are more likely to have high rates of price sensitivity. Future studies should investigate the major factors that affect passenger satisfaction. Additionally, future studies can investigate the moderating effect of price sensitivity on customer satisfaction, but in a different industry.

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