

UNIVERSITI TEKNOLOGI MARA

**THE MODERATING ROLE OF
PRICE SENSITIVITY AND SOCIAL
NORM IN UNDERSTANDING
CUSTOMER LOYALTY AMONG
PASSENGERS OF LOW-COST
CARRIERS IN MALAYSIA**

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ABSTRACT

Given the intense competition and market liberalisation in low-cost carrier industry in the country, customer loyalty has become a vital concern for low cost carrier. Thus, low-cost carriers are making efforts to maintain loyalty among their existing customers and attract new ones in order to achieve a sustainable competitive advantage over their competitors so that it will increase their profitability. Therefore, the primary objective of this research is to examine the direct relationship between three exogenous variables, cognitive loyalty, affective loyalty, conative loyalty as predictors of customer loyalty. At the same time, price sensitivity and social norm as moderator variables, had been included to investigate the interaction effect between exogenous variables and endogenous variable. From theoretical perspectives, Dick and Basu (1994) and Oliver (1997) of customer loyalty had been identified to support the research framework of the study. Thus, a research framework was proposed in which nine hypotheses were developed. Data was obtained from 420 respondents at Kuala Lumpur International Airport2 (klia2). A convenience sampling was carried out through a survey using the intercept method. The data were analysed by SPSS statistical program on descriptive analysis before employed SmartPLS version 3.0 to develop higher-order model through the repeated indicators approach in order to assess the measurement and structural of the framework and moderation assessment analysis through orthogonalizing approach. The result of this study indicates that the direct relationship between the predictors (cognitive loyalty, affective loyalty, conative loyalty) and customer loyalty are significant. The results may imply passengers believing the superiority of airline service attributes of low-cost carrier, will lead to higher intention (conation) to purchase the ticket for their preferred low-cost carrier. The findings suggest that low-cost-carriers should provide impeccable service and build a relationship with their passengers by developing a strong media initiative through mobile applications and websites to enhance personalised customer experience, in turn strengthened customer loyalty. It also established that price sensitivity and social norm demonstrate fully statistically significant interaction effect between cognitive loyalty, affective loyalty, conative loyalty and customer loyalty. The significance of the results suggest that low-cost carriers should provide discounted ticket price for group booking or introduce fare families' concept to encourage family members or friends travelling together and allocate advance-purchase discounts (APD) to more seats per aircraft on popular destinations to retain and entice price sensitivity passengers. This study also provides further empirical support of the value of true loyal customers which is defined in terms of both (repeat patronage (behavioural) and relative attitude (attitudinal) perspectives in the low-cost carrier industry in Malaysia.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Ever since the declaration of the 1978 Airline Deregulation Act in the United States, the market situation of the air transport industry changed significantly. From that period, there has been a significant rise in the number of low-cost carriers that emphasize low fares in order to attract passengers. It was first introduced in the United States, later in Europe and then finally all over the world after the liberalisation of regulations in airline industry. Usually, the fare class structure of low-cost carrier (LCC) is relatively simple because LCC only operate one class: economy and low-cost carrier generally offer two kinds of airfares: discount fare and regular fare (Ko, 2016). In addition, they usually provide flight services in point-to-point routes at secondary airport, for simple and easy management. The increasing use of low cost carrier (LCC) services reflects customer preference for low fares and point-to-point travel, and a dislike of the congestion, confusion and long walking and waiting times at hub airports (de Wit and Zuidberg, 2012). Moreover, low-cost carriers (LCCs) do not use travel agents and adopt the electronic ticketless systems or e-ticket utilising websites, to get rid of commission payments, Furthermore, low-cost carrier (LCC) keeps a high flight frequency to maximize their utilisation of aircraft (Evangelho et al., 2005).

Before the formation of Value Alliance on 16th May 2016, Southeast Asia was a pioneering region for the cross-border joint venture model. Value alliance is the world's first pan-regional low- cost carrier (LCC) alliance comprising eight Asia Pacific low- cost carriers (LCCs) such as Nok and NokScoot, (Thailand), Scoot and Tiger Air (Singapore) and Cebu Pacific Air (Philippines), Tiger Air (Australia), Jeju Air (South Korea) and Vanilla Air (Japan).

AirAsia and Jetstar were the first movers, in the cross-border joint venture model, launching new LCCs in multiple Southeast Asian markets more than 10 years ago. Lion, Scoot, Viet Jet and AirAsia X have joined the trend over the past five years. There have been 13 cross-border joint venture (JV) airline launches in Southeast Asia since 2004. Southeast Asia's cross-border joint venture (JV airlines) are based in