

The Impact of Price Fairness and Service Quality on Customer Satisfaction and Loyalty of Lion Air Airlines Due to Paid Baggage Policy on Domestic Flights at Soekarno Hatta Airport

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Abstract. Low-cost airlines or commonly known as Low Cost Carrier (LCC) airlines are currently widely used by people in Indonesia to travel. This is evidenced by the high Market Share of the LCC Airlines, which is Lion Air Airlines, on domestic flights in Indonesia. Along with the increasing interest from many of its users, Lion Air Airlines has implemented a new policy on domestic flights, namely "paid baggage". This is done with the objective to improve the service quality to its passengers. However, this causes the pros and cons to arise, which cause a decrease in the number of passengers due to the increasingly expensive costs. The purpose of this research was to find out the effect of price fairness and service quality on customer loyalty by mediating the customers satisfaction of Lion Air Airlines in Indonesia, especially domestic flights at Soekarno Hatta airport. The samples used in this research were 207 respondents who had used Lion Air Airline services and had experienced the new policies, chosen with Simple Probability Sampling technique. The instrument used in Data Analysis was SEM (Structural Equation Modeling) with variant based-Partial Least Square (PLS) —using SmartPLS 2.0 software. The results of this research indicated that the Price Fairness Variable does not affect Customer Loyalty of Lion Air Airlines through Customer Satisfaction as the Mediator. Conversely, Service Quality Variable affects Loyalty of Lion Air Airlines through Customer Satisfaction as Mediator.

Keywords: LCC airline, paid baggage, customer loyalty, domestic flight

1. Introduction

Transportation can be interpreted as the shift of people, goods, or posts from a point or place to another point or place by using a mode or means of transport driven by machines or humans[1]. Transportation itself is divided into 3 types, land transportation, sea transportation and air transportation. Currently, Air Transportation is becoming the most in demand transportation. In addition to fast travel time, air transportation also has the latest and sophisticated technology that provides more comfort and security compared to other transportations.

Nowadays, companies have realized that customer satisfaction is an important thing that must be met[2]. This is important to get loyalty from customers who buy or use their services. Concerning this, satisfied customers will incur high loyalty to the companies. The reason for this is that customer satisfaction is a mediating variable between the price fairness and the service quality with customer loyalty[2].

Lion Air Airline that has the largest market share in Indonesia, which is above Garuda Indonesia, and it is the result of Lion Air's management that implement competitive strategy of using lower prices compared to other airlines, thus more customers use their services, primarily for Domestic flights[2]. However, its lower prices come with poor system and service quality. Therefore, Lion Air set a new policy regarding paid baggage as stipulated in article 22, Transportation Minister Regulation Number PM 185 of 2015 concerning Passenger Service

Standards for Economy Class Domestic Scheduled Commercial Air Transport, in the hope of improving the system and service (<https://economy.kompas.com>, 01/22/2019).

With the implementation of the Paid Baggage policy, Lion Air Airlines hopes to improve its system and service quality in order to increase the number of its users. In reality, this has the opposite effect. There has been a decrease in the number of passengers caused by several factors such as: dissatisfaction of Lion Air Airline users because the ticket prices are not in accordance with the service quality provided, Lion Air Airline users still lacked resistance against the negative issues regarding the company, and its lack of reliability in 'On-time Performance' flight schedules.

Thus, this research aimed to find out about:

1. Effect of ticket prices fairness on the loyalty of Lion Air Airline service users
2. Effect of ticket prices fairness on the customer satisfaction of Lion Air Airline customers
3. Effect of service quality on the loyalty of Lion Air Airline service users
4. Effect of service quality on the customer satisfaction of Lion Air Airline customers
5. The effect of ticket prices fairness on customer loyalty, using Lion Air Airline customer satisfaction as a mediator
6. The Effect of Ticket Price Fairness and Service Quality on the loyalty of Lion Air Airline customers satisfaction as a mediator

1.1 Price Fairness

Price Fairness is an assessment in an effort to make reasonable and acceptable results. Its valuation is based on a comparison of transactions from several parties involved. This assessment also depends on the comparability in the transactions of the parties involved.[3][4][5].

On Price Fairness conducted by[6], the measurement of variables can be measured by:

1. Customers or service users feel they are paying a reasonable price on each transaction
2. Reference of the prices fairness, when customers or service users feel it is common that the product or service of the same type from other companies in the same industry is set at different prices
3. It is reasonable and acceptable for customers regarding the price policy set by the company
4. The determined Price fairness is an ethic, the customer is notified of the price changes that will happen before it is happening

1.2 Service quality

Service quality is a process of providing excellent service to meet customer expectations. It is also the most important activity in marketing strategies carried out by companies where companies must keep a commitment to always provide excellent quality of services in order to grow and develop. In another term, quality is the totality of the characteristics and features of products or services that depend on its ability to meet stated or implied needs.[7][8][9][10]

On the Service Quality done by[11], the measurements of variable are as follow:

1. Reliability, which is capable of performing promised services reliably and accurately
2. Responsiveness, which is willing to help customers in providing services at the right time

3. Guarantees, which is the insight and politeness of employees or staffs and their ability to display trust and confidence
4. Empathy, which is the condition of giving personal attention to customers
5. Appearance, which is the display of physical facilities, equipment, personnel, and communication materials

1.3 Customer satisfaction

Customer satisfaction is the result of a various ways and efforts to attract customers. This satisfaction depends on the description of product performance in giving the value which is relative to the expectations of the customer. If the value is lower than the customer's expectations, the customer is not satisfied. If performance is in line with expectations, the customer is satisfied. If the performance value exceeds the buyer's expectations, the customer is much more pleased. The concept of a product or service can provide satisfaction in every purchase is very important for the company's operations, because if the company fails to provide satisfaction to the buyer compared to its competitors, the company will not last long in its business.[12][13][14]

On Customer Satisfaction carried out by [13], the variable measurements are:

1. Conformity of Hope
2. Performance Perception
3. Customer Assessment

1.4 Customer loyalty

Loyalty is the customers' commitment to re-purchase consistently and continuously in the future, even though it is influenced by situations and efforts to cause behavior changes. Loyalty actually refers more to the form of units in making decisions in order to make continuous purchases of the goods or services of the selected company.[15][16][17][18][19]

On Customer Loyalty conducted by [20][13], Measurement of Customer Loyalty variables can be measured by:

1. Repeat Purchase (Loyalty to product purchases)
2. Retention (Resistance to negative influences about the company)
3. Referrals (Referring in total the existence of the company)

2. RESEARCH METHODS

2.1 Research Location

This research was conducted in Terminal 1 of Soekarno-Hatta Cengkareng International Airport with its scope included Price Fairness, Service Quality, Customer Satisfaction, and Customer Loyalty for Lion Air domestic flight service users.

2.2 Types and Sources of Data

This research used quantitative data in the form of questionnaire and qualitative tabulation data in the form of interviews with Lion Air Airline users regarding the pre-mentioned scope of the research. The data sources in the research consisted of Primary Data Sources from respondents on the given questionnaires and Secondary Data Sources in the form of information from Trusted News and Market Share data released by Ministry of Transportation at the press conference available on the internet regarding the number of Lion Air Airlines passengers at the Airport Soekarno-Hatta International of domestic flights.

2.3 Data Collection Method

Data Collection Methods used in this research were interview at the research location and giving questionnaires to selected respondents. The statements on the questionnaire were set with

a Likert Scale by giving a score of 1 to 5. The answers from the research instrument had gradations from ‘very positive’ to ‘very negative’.

2.4. Population and Sample of Research

The population in this research was all domestic passengers of Lion Air who arrive at the Soekarno-Hatta International Airport arrival terminal or transit passengers who have used Lion Air Airline services. The sampling technique used in this research was purposive sampling. The number of respondents in this study was 207 respondents.

2.5. Data Analysis Technique

Based on the hypothesis in this research, the data analysis method used was SEM (Structural Equation Modeling) analysis with the Partial Square Least variant using the Smart Pls 2.0 Application. By analyzing the SEM research model, we can identify the dimensions of a construct and at the same time measure the influence or degree of relationship between factors that have identified those dimensions [13]

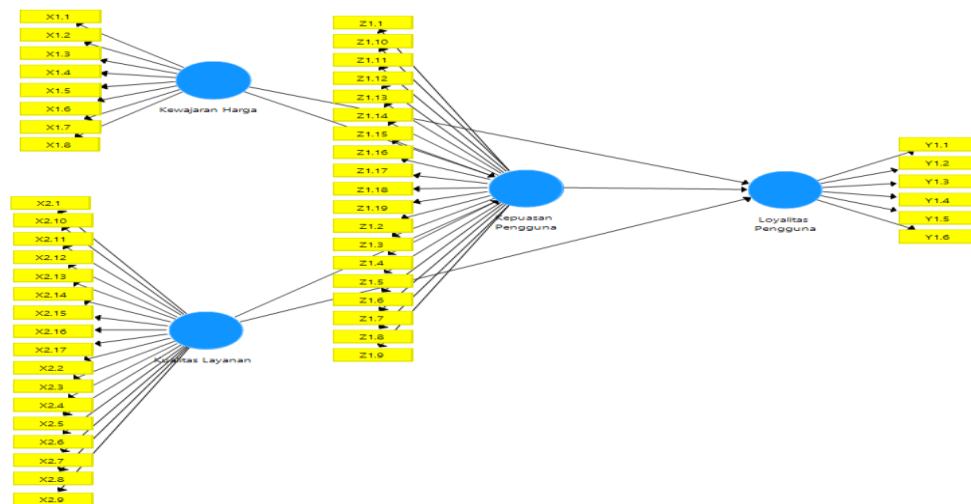


Figure 1. Conceptual Framework

3. RESULT AND DISCUSSION

3.1 Measurement Model Evaluation (Outer Model)

Measurement model analysis was carried out by testing the validity and reliability of the research instruments; discriminant validity, and composite reliability. Validity test carried out in this research was aimed to determine the ability of research instruments to measure what should be measured. To measure the consistency of measuring instruments in measuring a concept or the consistency of respondents in answering items in the questionnaire or research instrument, the Reliability Test was used. [21]

3.2 Construct Validity Test

In testing Construct Validity, there are two components. The first is convergent validity which is determined by loading factor and AVE with the condition of loading factor above 0.7, and AVE value of 0.5 [21]. However, since this research was developmental, the loading factor values above 0.5 were still acceptable, and the average variance extracted (AVE) value was above 0.50 [21]. In this research, the researchers used the value of loading factor above 0.5. The second component is discriminant validity, which could be said to meet the requirements if the AVE root is greater than the inter-construct correlation.

In conducting Convergent Validity Test, several things that need to be considered are the value of loading factor and the value of t-statistics and the value of average variance extracted (AVE) (Bestari, 2019). The results of calculations using the Smart Pls 2.0 program showed that the factor loading and AVE values were more than 0.5, thus the Four Variables and Indicators in this research were declared Valid.

3.3 Discriminant Validity Test

The discriminant validity test is done through 2 stages, namely by looking at the cross loading value and comparing between the squared values of the correlation between the construct and the root of AVE[21]

From the result of calculations conducted by researchers using Smart Pls 2.0, it showed that each loading value in the intended construct was larger compared to other construct loading values, it could be concluded as valid.

3.4 Reliability Test

In testing the reliability of instruments, the researchers used composite reliability. Composite reliability calculation results must be above 0.70[21]

Based on the results of the test, it can be concluded that all the questions used in the research variable have met the credibility of the reliability composite standard above 0.70, in other words, it was stated as reliable. Overall, the results of the measurement model (outer model) have met the requirements so that this research proceeded to the structural model (inner model)

3.5 Structural Model Test (Inner Model)

Testing the inner model or structural model is done to see the relationship between constructs, significance values, and R-square of the research model.[21]

From the results of the calculation, it was found that the value was 0.754 for the constant of Customer Satisfaction. This means that the Variables of Price Fairness and Service Quality are able to explain the variance of Customer Satisfaction of 75.4% and the remaining 24.6% is influenced by other Variables outside of this research. The value of R^2 0.469 found in the construct of User Loyalty also means that the Variables of Price Fairness and Service Quality are able to explain the Customer Loyalty Variance by 46.9% while the remaining 53.1% is influenced by other variables outside of this research. However, the result of the calculation R^2 is not an absolute parameter in measuring the accuracy of the prediction model because the basis of the theoretical relationship is the most important parameter to explain the causality relationship[21].

3.6 Hypothesis Test

Hypothesis testing in this research used descriptive verification method, where the results of research were then processed and analyzed to find out the significant relationship between the variables studied, in order to produce conclusions that will clarify the picture of the object under discussion[21].

The test results showed that the Price Fairness, Service Quality, Customer Satisfaction, and Customer Loyalty could be said to be good, for all variables they were also good. The variable is said to be good if it has a t-count value $>$ t-table.

However, the 'On-time Performance' indicator and unsatisfactory services affect the resilience of the company's negative issues so that customers do not have high loyalty to the company.

Hypothesis 1 Testing Result shows that Price Fairness has a positive effect on Customer Loyalty. These results are in line with those of [22] dan [21]. In their research, they stated that

the perceived prices fairness was positively and significantly related to customer loyalty. Price Fairness is so important in the success of increasing product prices. Research shows that prices are one of the determining factors for customer satisfaction, and affect loyalty.

Hypothesis 2 Testing Result shows that Price Fairness has a positive effect on Customer Satisfaction. These results are similar to the two previous studies conducted by, [22] and [21]. In their research results, it is shown that the price fairness has a positive and significant effect on customer satisfaction. In Journal [21], [23] it is said the price fairness is so important in the success of increasing the price of a product or service. This research also shows that prices are one of the determining factors for customer satisfaction, and affect loyalty.

Hypothesis 3 Testing Result shows that Service Quality has a positive effect on Customer Loyalty. This is in line with the research revealed by [6]. They revealed that there was a significant effect between service qualities on customer loyalty.

Hypothesis 4 Testing Result shows that service quality has a positive and significant effect on customer satisfaction. The results of this research are in line with the research conducted by [3] and [4]

Hypothesis 5 Testing Result shows that Price Fairness has a positive influence on Customer Loyalty through Customer Satisfaction as a mediator variable. This is similar with result of research conducted by [21]. In his research, it can be concluded that customer satisfaction is a mediator for all perceived service quality, product quality and price fairness.

Hypothesis 6 Testing Result shows that Service Quality has a positive effect on Customer Loyalty through Customer Satisfaction as a mediator variable.

4. Conclusion

From the overall results in this research, it is indicated that partially and simultaneously the variable Customer Loyalty is influenced by Price Fairness, Service Quality, and Customer Satisfaction. This is reinforced by the results of calculations in this research and previous research which show a positive and significant influence between Price Fairness, Service Quality, and Customer Satisfaction on Customer Loyalty.

5. Suggestion

1. Provide Special Prices related to Fair Prices to be affordable for passengers
2. Improve Service Quality for Lion Air Airlines, by increasing time performance on each flight.
3. Give more attention to customers, especially when there are flight delays. One of which is by fulfilling passenger rights such as providing compensation as regulated by law and by providing services that are in accordance with what the customer expects.

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