

The Effect of Price And Perceived Quality on Ticket Purchase Intention at Lion Air Airline

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Abstract. In present days, the airline industry is ever-thriving, notably in Indonesia. The Indonesian Minister of Transportation has issued Ministerial Decree No. 72 of 2019 to set the upper limit and lower limit rates of Indonesian airline ticket prices. The aim of this research was to figure out the significant effects of price on perceived quality, price on purchase intention, and perceived quality on purchase intention in the case of Lion Air. This research used quantitative research, which were then analyzed by the SEM PLS technique with the software SmartPLS. The results show that in Lion Air 1) price had a positive effect on purchase intention, 2) price had a positive effect on perceived quality, 3) perceived quality had a positive effect on purchase intention, and 4) perceived quality was able to mediate the relationship between price and purchase intention.

Keywords: price, perceived quality, purchase intention

1. Introduction

In the globalization era, Indonesia is facing currency-fluctuation-driven instability in its economic condition, and this instability ultimately influences the aviation industry. The enforcement of Government Regulation No. 40 of 1995 on Air Transportation has pushed Indonesia into an unprecedented era in which the free market has transformed into a destination to which companies are running their business. Prior to deregulation in 2000, there were only five airlines operating in Indonesia, but post-deregulation, new airlines were emerging on the grounds that the new regulation permits new aviation companies to start business. Currently the airlines operating in Indonesia include Garuda Indonesia, Lion Air, Citilink, Batik Air, Sriwijaya, Wings Air, and NAM Air. Since the deregulation in 2000, the ticket pricing has been handled by the market mechanism. But in the beginning of 2019, the Indonesian Government raised upper limit and lower limit rates of airplane tariffs with the issuance of the Transportation Ministerial Decree No. 72 of 2019. Indonesia has five airlines belonging to the Top Brand Awards category [1].

Table 1. Top Brand Awards

Merk	Top Brand Index	TOP
Garuda Indonesia	40,5%	TOP
Lion Air	19,2%	TOP
Citilink	13,1%	TOP
Batik Air	10,6%	

In Table 1, it can be seen that Lion Air is currently resting at the second place among the Top Brand Awards companies and is categorized as a TOP brand. The company Lion Mentari Airline is known as a low-cost airline, and the biggest private-run in that, in Indonesia. This airline was established on October 19, 1999 and started its operation on June 30, 2000. It separately serves 36 domestic destinations and 4 international routes, and its airplanes include A330-300, B747-400, B737-800 NG, and B737-900 ER. It serves 18 flights from Jakarta to

Medan in one day, which is its one of highest frequencies of flights, and for every flight Lion Air sets a price lower than any of its competitors as can be seen in Table 2. An instance for it is one for the Jakarta-Medan route [2].

Table 2. Airline Ticket Price

Airline	Price	Time Departure
Lion Air	1.646.800 IDR	07.00
Sriwijaya	2.177.200 IDR	08.15
Garuda Indonesia	2.338.300 IDR	07.50

The airline received the second Top Brand Award and held a TOP status. However, the airline achievements are still tinged with controversies, including the scrapping of free baggage allowance, the appearance of a harmful animal (scorpion) in the plane cabin, the plane leaves the passenger when the passenger has checked in in 1 hour 30 minutes before departure, it happens there's miss-communications airlines and pax, and complaints about the obligation for an under-five passenger to carry a 7 kg hand-carry baggage to the plane cabin [3]. The data from the Transportation Ministry for the period 2017–2018 in Table 3. show that Lion Air has faced a drop in the market share as compared with other airlines like Garuda Indonesia, Citilink, Batik Air, Wings Air, Sriwijaya Air, and NAM Air [4].

Table 3. Market Share Lion Air.

Year	Market Share	Total Pax Lion Air	Total Number All Pax
2017	35,57%	33.131.053	93.119.983
2018	34,02%	33.448.464	98.320.000

Given the problem described above, the researchers took interest in conducting a research study at Lion Air with the airline users acting as the respondents entitled "The Effect Of Price And Perceived Quality On Ticket Purchase Intention At Lion Air Airline"

2. Theoretical Basis

2.1 Price

Price is often associated with the sale value or purchase value of goods or services. Price is a total amount that must be paid in cash or in another form of exchange medium [5]. Furthermore, [6] defined price as a sum of money charged for a product or service and an accumulation of values exchanged by consumers for the benefits received from owning or using the product or service. Price is used as a value indicator that is linked with the benefits felt from a product or service. According to [7], transportation rate can be categorized in the following: (1) Class rate, which applies specifically to freight and passenger. The rate in this category varies by freight and passenger type, (2) Contract rate, another type of transportation rate, which is lower than class rates.

2.2 Perceived Quality

As stated by [8], consumers in most cases judge the quality of a product based on the information that they associate with the product. According to [9], perceived quality is the character of a product or service that is capable of meeting the existing needs. As stated by [10], the quality of flight services consists of pre-flight, in-flight, and post-flight services and these services are directly related to the quality of service provided. According to [11] state that services depend on the frequency of contact with consumers, with the level of service organization used to distinguish between types of services. Three identified types of services are as follows: (1) Pure service, (2) Mixed service, (3) Quasi-manufacturing service.

2.3 Purchase Intention

As stated by [12], purchase intention is a process that occurs before a purchase decision, where an important process that occurs in the early stages of a meeting between the seller and the buyer, and according to [13], Purchase intention is reflective of the likelihood a customer will buy a particular product or service in a short-term decision. Purchase intention is related to consumers' perceptions, behaviors and attitudes, purchasing behavior is the key for consumers to access and evaluate products or services. Indicators of purchase intention includes the following [14]: Transactional interest, Referential interest, Preferential interest, Explorative interest.

2.4 Hypotheses

2.4.1 Price-Purchase Intention

Price has an effect on purchase interest. One of the primary differences between the concepts of economics and behavior in pricing in terms of purchase decision is that passengers who are traveling for holiday destinations will increase the purchase intention and market share in the airline industry [15], and in purchase intention, price acts as a dominant factor consumers will take into account when buying or using a service or product [16]. And in a prior study, price was found to be one of the factors which had the strongest influence on passengers' intention to use or purchase airline services [17]. It was assumed that the setting of prices acceptable to consumers would positively affect purchase intention. Hence, the following hypothesis was proposed: H1: Price has a positive effect on purchase intention.

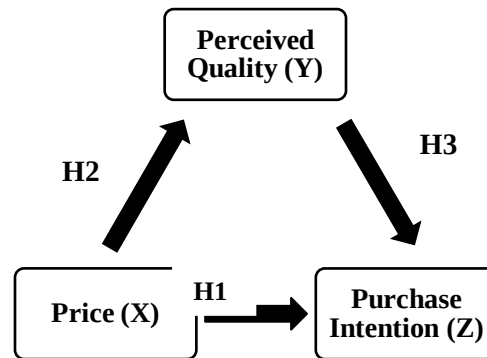
2.4.2 Price-Perceived Quality

The relationship between price and quality has become a central question in marketing literature. Price serves as an extrinsic indicator of quality [18]. In general, people will expect high quality when they have to pay for a high price. A rise in the price may indicate a rise in quality, while extremely low price may be negatively associated with the quality perceived. Some studies have identified price perception as an indicator of product or service quality. It was revealed by [19] that the relationship between price and perceived quality was positive. The study by [19] shows that the use of price as an indicator to judge quality tends to be more prevalent when customers are not used to or unfamiliar with the product or service. Meanwhile, [18] shows that price had a positive effect on perceived quality when it was the only thing available. It was assumed that high price was perceived by customers as high quality. Hence, the following hypothesis was proposed: H2: Price has a positive effect on perceived quality.

2.4.3 Perceived Quality-Purchase Intention

Perceived quality provides consumers with value by giving a reason to purchase a product or service for varying prices. According to [20], perceived quality increases the level of purchase or the purchase intention of a service through the experiences provided for consumers. [21] conducted a study on the factors that influence purchase intention and found that service quality positively affected purchase intention. Another study investigated the effect service quality exerted on purchase intention and identified the aspects of service quality [22]. It was assumed that perceived quality was regarded as a factor that influenced purchase intention. Hence, the following hypothesis was proposed: H3: Perceived quality has a positive effect on purchase intention.

Conceptual Framework



3 Methods

This research is a quantitative study, and the population comprised all users of Lion Air services. A sample of 100 respondents was taken by the non-probability sampling technique, a sampling technique in which the members of population have different likelihood of being used as sample [23]. The technique used was the purposive sampling technique. It is a sampling technique with certain criteria or considerations [23]. The criteria used in this research were as follows: respondents had to be at least 17 years old, respondents had certain occupations, respondents were heading for a tourist destination, respondents had fixed income, and respondents used Lion Air services. The research instrument used was questionnaires, which were distributed directly to the sample, and a Likert scale was used to draw responses. Data were analyzed by the Structural Equation Modeling Partial Least Square (SEM PLS) technique with the software SmartPLS. This technique was used to identify the presence of causality relationships, to find out measurement model to validity and measure hypotheses in analysis relationships between variables and explain about dependent variable measured by R2 [24].

Table 4. Indicator

Variable	Indicator		Source
Price	X1	Price of airline is affordable.	[17]
	X2	Price is matches in my consumption level.	
	X3	I am satisfied with the price offered.	
	X4	Price offered more affordable than competitors	
Perceived quality	Y1	The airline provides important essential pre-flight Information.	[25]
	Y2	Check-in process was efficient.	
	Y3	Facilities are clean.	
	Y4	Crew were willing to help passenger	
	Y5	appearance of in-flight was appropriate	
Purchase intention	Z1	Integrity and development will affect willingness to use airline	[26], [27]
	Z2	To keep a good relationship with the airline	
	Z3	Recommend the airline to others	
	Z4	Commitment & promotions	
	Z5	Purchase intention behavior	

4 Discussion and Result

4.1 Validity and Reliability Testing

From the SmartPLS-assisted calculation, the following results were obtained:

Table 5. Square Root of AVE and Correlation Between Variable

Variable	AVE	Root of AVE
Price	0,663	0,814
Perceived Quality	0,550	0,741
Purchase Intention	0,539	0,734

Based on Table 5, the square root of AVE of each variable was higher than the coefficient of its correlation with another variable. This measurement would be acceptable if each variable had good validity determinant. From the discriminant validity testing, all of the variables price, perceived quality, and purchase intention were declared valid as the AVE value of each of them exceeded 0.50 [24].

4.1.1 Reliability Testing

The construct would be considered reliable if the composite reliability value exceeded 0.70 [24]. The results of the reliability testing in this research can be seen in Table 6.

Table 6. Reliability Indicator

Variable	Composite Reliability	Cronbatch's Alpha
Price (X)	0,887	0,830
Perceived Quality (Y)	0,859	0,796
Purchase Intention (Z)	0,854	0,786

It can be concluded then that the construct had good reliability as the value obtained was > 0.70 .

4.1.2 Validity Testing

Based on the convergent validity testing results as presented in Figure 1, all of the indicators measuring the construct were declared valid for having outer loading factor of > 0.70 [24].

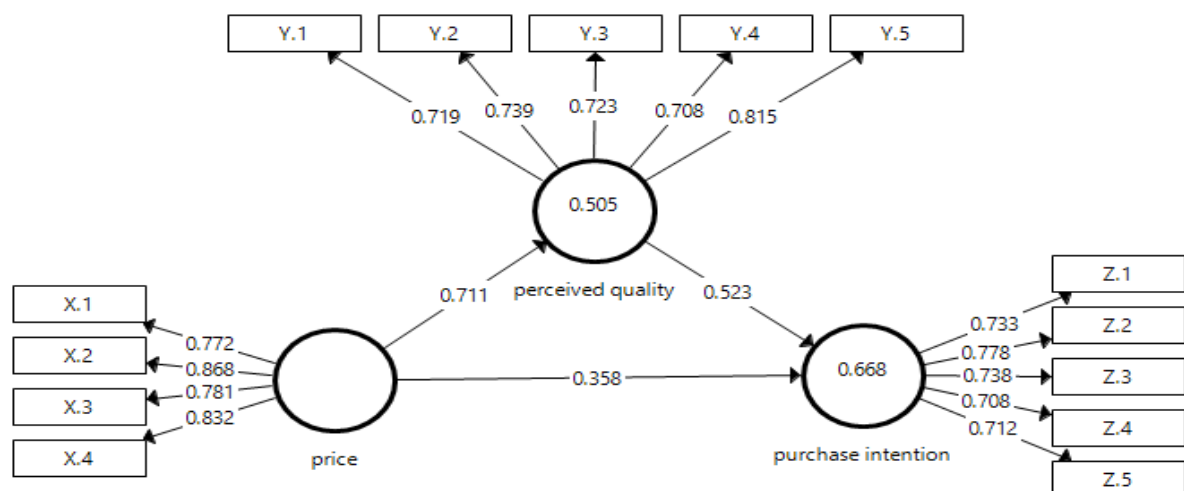


Figure. 1 PLS Algorithm

4.2 Direct Effect

Figure 1. shows the direct relationships between variables. Hypothesis testing was carried out at a significance level of 5%, and a hypothesis would be accepted if the T_{count} was > 1.98 and the p-value was < 0.5 . The hypothesis testing results obtained by SmartPLS bootstrapping are presented in Table 7.

Table 7. Path Coefficients and T-values

Path	Original Sample (O)	T Statistic	P values	Result
Price → Purchase intention	0,358	4,205	0,000	Accepted
Price → Perceived quality	0,711	11,374	0,000	Accepted
Perceived → Quality Purchase Intention	0,523	6,213	0,000	Accepted

Based on Table 7, price had a positive effect on purchase intention with a T_{count} of 4.205 > 1.98. It also shows that price had a direct effect on purchase intention at 0.358. Price was also found to have a positive effect on perceived quality as was shown by a T_{count} of 11.374 > 1.98. Price had a direct effect on perceived quality at 0.711. Lastly, perceived quality was found to have a positive effect on purchase intention as was shown by a T_{count} of 6.213 > 1.98. Perceived quality had a direct effect on purchase intention at 0.523. It can be concluded that the three hypotheses proposed were acceptable. For H1, 4.407 > 1.98; For H2, 10.380 > 1.98; and for H3, 6.493 > 1.98.

4.3 Indirect Effect

Table 8 shows that there was an indirect relationship between price and purchase intention through perceived quality as an intervening variable.

Table 8. Indirect Effect

Path	Coefficients	Result
Price → Perceived quality → purchase intention	0,371	Significant

Using T_{count} a (11.374) and T_{count} b (6.213), a value of 5.4525 > 1.98 was found from a Sobel test at a significance level of 5%, and the P-value was 0.00008 < 0.05. It can be concluded that although price directly affected purchase intention, perceived quality was capable of mediating the indirect relationship between the former and the latter.

4.4 Goodness of Fit Test

Table 9 shows the criteria for R-squared values, with 0.75 being strong, 0.50 moderate, and 0.25 weak.

Table 9. R Square

Variable	R2	Result
Perceived Quality	0,505	Moderate
Purchase Intention	0,668	Moderate

The structural model fit can be seen from the Q-squared as follows:

$$Q^2 = 1 - (1 - 0,505) (1 - 0,668)$$

$$= 0,84$$

The Q-squared obtained was 0.84. Because Q-squared was higher than 0, the model was proven to have predictive relevance with strong value.

5 Conclusions and Suggestions

5.1 Conclusions

The research results show that price had a positive effect on purchase intention. This shows that price was able to increase purchase intention. The fact that the prices offered were appropriate for consumers' purchasing power would increase Lion Air services' purchase intention. Furthermore, perceived quality as an intervening variable had a positive effect on purchase intention, meaning that perceived quality was able to increase purchase intention. It can be concluded that perceived quality as an intervening variable was able to significantly mediate the relationship between price and purchase intention. Price also had a positive effect on perceived quality. This means that price became the primary consideration for consumers when perceiving the quality of Lion Air's services. The crew's and staff's acceptable performance in aviation was able to produce good perceived quality. Perceived quality had a positive effect on purchase intention, meaning that perceived quality was able to improve purchase intention. Good relationship between the airline and customers will improve Lion Air's purchase intention among customers.

5.2 Managerial Implications

In the researchers' opinion, the Government's setting of upper limit and lower limit airline tariff has pushed the fares offered by Lion Air upward, making it necessary for Lion Air to conduct reformulation to set affordable prices for consumers. Based on this research, the crew and staff were not very competent in assisting customers pre-flight and in-flight. It is recommended then that Lion Air should improve the crew's and staff's competency in assisting customers pre-flight and in-flight. Last but not least, the researchers recommend that Lion Air should strengthen its commitment and conduct many interesting promotions to attract consumers to travel with Lion Air.

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