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Evaluation of passengers' buying behaviors toward low cost carriers in Southeast Asia

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A B S T R A C T

The purpose of this paper is to examine how Southeast Asian passengers' attitudes and behaviors affect their buying intention and actual purchase of Low Cost Carrier (LCC) tickets. A research model was developed based on the Theory of Planned Behavior. A survey of 791 passengers was conducted in two major airports in Thailand to test the hypotheses. Results indicated the important role of passengers' attitudes, subjective norms, and perceived behavioral control in LCC passengers' buying behaviors. The paper provides LCCs with useful information about passengers' attitudes and behaviors toward using LCC services, which will help the carriers form necessary strategies to attract more customers.

1. Introduction

A low cost carrier (LCC) is defined as an airline that differentiates itself in the market through reduced ticket prices (Civil Aviation Authority, 2006). LCCs manage to reduce their ticket prices below competitors' prices using different strategies such as: fuel efficiency, careful management of revenue, and yield management. Revenue management and yield management are strategies that use ticket pricing to achieve higher load factors and/or specific earning targets. In addition, in order to reduce operational costs typical LCCs also eliminate business or premium lounges and reduce or even eliminate staffed check-in areas (Civil Aviation Authority, 2006).

The LCC business model has proven to be a strong competitor to the traditional full-service model. The LCC segment has grown significantly in Asia, where the cost gap between full-service carriers (FSCs) and LCCs ranges from 60% to 70% (substantially higher than the 36% gap in U.S. carriers, and the 40% gap in European carriers) (Smyth and Pearce, 2006). Currently, the biggest LCCs operating in Southeast Asia are AirAsia and Indonesia's LionAir (Bland, 2014). Economic conditions in Southeast Asian developing countries such as Indonesia, Malaysia, and Thailand are considered ideal for the expansion of LCCs because of growing middle classes and a dense population in limited land transportation options (Bland, 2014). Thailand, along with the Philippines, is considered to be one of the friendliest countries for LCC operations and is projected to be a major market for LCCs (Teng and Perry, 2013).

While the LCC model promises lower costs than the full-service model, LCCs may be losing this cost advantage over time as FSCs become more efficient, and LCCs come up against the limits of cost controls (KPMG, 2013). This narrowing of the gap between carriers is not likely to be reduced much further; however, the fact remains that LCCs need to be more competitive in the future in order to maintain their competitive advantages. They need to develop effective marketing strategies to attract more customers. Understanding perceptions and buying behaviors of LCC passengers will enable carriers to develop necessary strategies to improve and enhance their services and offerings to passengers.

LCCs are attracting more attention from the academia, but the LCC literature often assumes that price is the major factor in the LCC decision (Bland, 2014; CAA, 2006). Some studies examined other factors besides price such as booking convenience, in-flight

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services, schedule, safety consideration, and airline image, but found contradicting findings regarding the impacts of these factors (Chang and Hung, 2013; Diggines, 2010; Davison and Ryley, 2010). However, the consumer decision theory suggests that consumers likely choose products or services based on behavioral and attitude factors rather than just solely the price (Blythe, 2013). The underestimation of the importance of attitude and behavioral factors is the major gap in the LCC literature, which limits LCCs from understanding passengers' buying behaviors, and therefore, creates challenges for the carriers in expanding their market share. In addition, there also has not been adequate research on LCCs in the Southeast Asia region, despites the fact that this, with an LCC seat capacity of almost 58%, is one of the largest regions in the world for LCCs (Harbison, 2013).

The purpose of this paper is to fill the gap in the LCC literature by examining factors that influence the passengers' buying behavior toward LCCs in the Southeast Asia region. The research model focuses mainly on attitude and behavioral factors and is developed based on the Theory of Planned Behavior (TPB). This paper adds new insights to the LCC literature, which mainly focuses on economic factors and underestimates the impact of behavioral factors. In addition, LCC passengers in Southeast Asia may have different buying behaviors from Western passengers. O'Connell and Williams (2005) found that price is less important to Malaysian passengers than to Irish passengers. Thus, it is reasonable to hypothesize that passengers in developing countries in Southeast Asia may make airline selection decisions differently than those in Western countries. For that reason, price is not included in this paper, and only attitude and behavioral factors are considered to examine how Southeast Asian passengers' attitudes and behaviors drive their decision to select LCCs. Other external factors such as service quality, airline image, schedule convenience, and airline safety are also excluded from this study due to the inconsistent findings in extant literature regarding the impact of these factors. The focus on passengers' attitudes and behaviors provides carriers with useful understanding and insightful information about the passengers, which could be used to refine services and business practices, potentially making these carriers more competitive.

The paper is organized as follows. Next section reviews the existing literature in customer choice in LCCs, the ground theory, and the research model along with proposed hypotheses. The following section discusses the research methodology and data collection process followed by detailed results of the measurement model, full structural model, and results of the hypothesis testing. The last section discusses the theoretical and practical implications of the research and recommends for future research.

2. Literature review and research model

2.1. LCC business model

The LCC business model is one of the most recent changes in the general business model of airlines. LCCs use short-haul flights, a flat and straightforward fare and class structure, no partnerships, direct sales, and single-model aircraft fleets. In contrast, FSCs use a hub-and-spoke network, complex fare structures, price discrimination (including multiple service classes), partnerships with other airlines, multiple sales channels, and mixed aircraft fleets (Sabre, 2010). Additionally, FSCs offer a two-class or three-class service (economy, business, and first class), while most LCCs only offer a single class service. LCCs tend to attract infrequent or leisure travelers traveling domestically or regionally, while business travelers and long-haul travelers may be more likely to choose a FSC (Fourie and Lubbe, 2006).

Asia is one of the fastest-growing regions for LCCs with a fierce competition between national and regional competitors (Bland, 2014). Part of this growth can be attributed to currently inadequate air travel service in many parts of Asia despite its large population. The rising demand for air travel in Southeast Asia in last decade has resulted in rapid growth of LCCs in many countries in the region. A typical example is the air travel market in Thailand. The number of Thai LCC passengers (including international and domestic flights) increased from about 10 million in 2009 to more than 20 million in 2012 (AOT, 2015). This market grew even more rapidly in 2013, with a record of more than 26 million passengers in the LCC segment. Major LCCs in Thailand include Thai AirAsia, Nok Air, and Thai Lion Air (CAPA, 2014). Thai AirAsia reached 10.5 million passengers in 2013, including 4 million international and 6.5 million domestic passengers (CAPA, 2014).

2.2. Previous research in LCC selection

Studies have been conducted on the consumer choice of LCCs; most of them focused on price and service quality as major impact factors and used the data collected from Western LCC passengers. Some studies examined passengers' perceptions of LCCs, often in comparison to their perception of FSCs. O'Connell and Williams (2005) studied cross-cultural perceptions across four airlines: Ryanair, Aer Lingus, AirAsia and Malaysia Airlines. The authors used a survey of LCC and FSC passengers and found that the main reason for choosing an LCC over FSC (65%) was the lower price. An exploratory study in China suggested that perceptions of the airline's service level influenced the FSC selection but had much less influence on the LCC selection (Chiou and Chen, 2010). A study in South Africa suggested that this perception might be limited in their usefulness (Diggines, 2010). This study used a questionnaire of airport passengers in Cape Town and Johannesburg and found that most passengers actually did not perceive much difference between LCCs and FSCs except for price.

Another study compared passengers on LCC and FSC routes between Taipei and Singapore (Chang and Hung, 2013). A survey was collected from 338 business passengers to examine factors that encouraged and discouraged the selection of LCCs. Price was found to be an important factor in the selection of LCCs followed by convenience. However, the safety considerations and airline image discouraged the intention to select LCCs.

A LCC study in Turkey surveyed passengers of Pegasus Airlines and found that the most important factors influencing the LCC decision were price, schedule convenience, on-time performance, and safety. Less important factors were travel agent recommendations, type of aircraft, and food and drink (Atalık and Özel, 2007). In addition, Castillo-Manzano and Marchena-Gómez (2010) also indicated that the origin-destination pair, need to transfer, duration of the trip, and weekend travel influenced the LCC selection decision. A study from Malaysia showed similar findings. This study found that desire to control routes, journey purpose, and booking method drove the decision to select a LCC (Ong and Tan, 2010).

Some studies examined passengers' buying behavior in regard to LCCs and FSCs. One study examined records held by the U.S. Department of Transportation and determined that LCC passengers were actually less likely to complain about service quality than FSC passengers (Wittman, 2014). The authors attributed this to lower service expectations, lack of information on how to complain, and differences in qualitative service perceptions (Wittman, 2014). Another study found that LCC passengers were more price-sensitive than FSC passengers, and they readily switch airlines for a cheaper ticket (Diggines, 2010). van Eggermond (2007) found that price was the most important factor for airline passengers, while direct itineraries between destinations was the second most important. Finally, a study of passenger loyalty for German full-