



The Role of Customer Satisfaction in Mediating the Influence of Price Fairness and Service Quality on the Loyalty of Low Cost Carriers Customers in Indonesia



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Abstract

The shift in transportation preference from using airplanes to land and water transportations has led to the problem of decreasing customer loyalty towards low-cost carriers (LCC) or airlines. To maintain customer loyalty, LCC must develop a strategy to make customers satisfied with their service and become less likely to change transportation preference. This research focuses on the role of customer satisfaction in mediating the influence of price fairness and service quality on the loyalty of LCC customers in Indonesia. This research is categorized as an associative quantitative study. The data consists of 175 samples, collected by distributing questionnaires which include open-ended and close-ended questions. The validity and reliability of these questions have also been verified. The analysis technique used is the structural equation modeling and the analysis tool utilized is SmartPLS 3.0. The research results revealed that the influence of price fairness on customer loyalty is positive and insignificant, service quality and customer satisfaction have a positive and significant influence on customer loyalty, price fairness and service quality have a positive and significant influence on customer satisfaction, price fairness fully mediates influence of customer satisfaction on customer loyalty, while customer satisfaction partially mediates influence of service quality on customer loyalty.

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1 Introduction

Bali is well known to be a popular tourist destination. Each year, the number of tourists visiting Bali has always increased. However, it is different for domestic tourists who visit Bali using airplanes in 2019. There was an 11 percent decrease in the number of domestic passengers from January until September 2019 compared to the same period in 2018. The fall in the number of domestic passengers is due to the increase in the price of low-cost carriers (LCC) or full-service airlines to Bali. Consequently, domestic tourists prefer to use other transportation methods to visit Bali. The shift in transportation means from airplanes to other land and water transportation has led to the problem of decreasing customer loyalty towards low-cost carriers.

Kotler & Ketler (2017) stated that loyalty is the firm commitment of customers to repurchase or subscribe to a product or service. loyalty is the firm commitment of customers to repurchase or subscribe to a product or service even when there are other alternatives in the market (Lenka *et al.*, 2009; Rizan *et al.*, 2014; Coelho & Henseler, 2012). To maintain customer loyalty, low-cost carriers must develop a strategy to satisfy customers and minimize their tendency to change to other transportation means.

Service quality is one of the variables that affect loyalty (Subaebasni *et al.*, 2019). Jin *et al.* (2016) revealed that service quality has a positive and significant influence on customer loyalty. Moorthy *et al.* (2016) also explained that service quality, which consists of physical evidence, reliability, assurance, and empathy, has a positive relationship with customer loyalty. However, Sachro *et al.* (2013) found that service quality is not significantly related to the loyalty of customers towards train services, which is a land transport mode.

Price fairness is another factor that may affect customer loyalty (Moorthy *et al.*, 2016). According to Jin *et al.* (2016), price fairness is defined as the subjective evaluation of the price paid to obtain a product. Moorthy *et al.* (2016) and Samaan Al-Msallam (2015) stated that price fairness is positively related to customer loyalty. Kaura *et al.* (2015) also found that price fairness must be considered as an important factor to maintain customer loyalty. However, Jin *et al.* (2016) stated that price fairness does not significantly influence customer loyalty.

Customer loyalty can also be improved if consumers are satisfied with the products or services offered (Fernandes *et al.*, 2016 and Gumussoy *et al.*, 2016). According to Wah Yap *et al.* (2012), customer satisfaction is related to customers' post-purchase evaluation regarding the extent to which the product or service meets their expectations (Lin *et al.*, 2017; Terpstra & Verbeeten, 2014; Sofiati & Limakrisna, 2017). Mao (2010) stated that dissatisfied customers will cause problems for the firm. Gumussoy *et al.* (2016), Jin *et al.* (2016), Samaan Al-Msallam (2015) and Kaura *et al.* (2014) also explained that customer satisfaction has a positive and significant influence on customer loyalty.

Satisfaction is also influenced by price (Gumussoy *et al.*, 2016 and Herawaty *et al.*, 2016). Kaura *et al.* (2014) revealed that customer satisfaction can mediate the influence of service quality and perceived price fairness on customer loyalty. The research conducted by Abdullah *et al.* (2018) also revealed that the relationship between service quality and loyalty is mediated by customer satisfaction. Based on this research background, this study was conducted to examine and explain the role of customer satisfaction in mediating the influence of price fairness and service quality on the loyalty of low-cost carrier customers in Indonesia.

Literature Review

The Theory of Reasoned Action (TRA) is a model used to study human behavior. Social psychological studies showed that a person's behavior is determined by their intention to perform the behavior (Ajzen & Fishbein, 1975). The TRA has two main constructs, namely intention (attitude towards behavior) and subjective norm, which is associated with the behavior. The theory is related to one of the variables examined in this study, namely the perceived price fairness. The attitude of a person in responding to the price of a flight service is shown by accepting or rejecting the offer. The subjective norm is related to customers' trust towards the flight service, which is determined by its perceived quality. Thus, the behavior of a person is determined by the research variables, namely price fairness and service quality.

Price Fairness

Competition and price-setting are the main problems faced by many marketing executives (Kotler & Armstrong, 2012). According to Jin *et al.* (2016), price fairness is defined as the subjective evaluation of the price paid to obtain a product. The evaluation depends on the extent consumers perceive that the price of a product or service is reasonable. In this study, the measurement of the price fairness variable refers to the constructs used by Gumussoy *et al.* (2016) and Hermawaty *et al.* (2016) namely a reasonable price, accurate pricing, fair pricing policy, ethical price changes, and acceptable price to customers.

Service quality is defined as the evaluation of customers regarding the a product's overall quality (Zeithaml, 1988). SERVQUAL was formed to assess customers' perception regarding the service quality in the retail and service industry (Parasuraman *et al.*, 1988). According to Parasuraman *et al.* (1988), there are five dimensions of SERVQUAL, namely physical evidence, reliability, responsiveness, assurance, and empathy.

Satisfaction can be defined as the happy or disappointed feelings felt by customers as a result of their evaluation in comparing the performance of a product with their expectations (Kotler & Keller, 2017). According to Wah *et al.* (2012), customer satisfaction is the post-purchase evaluation when the products meet or exceed customer expectations, while dissatisfaction is when the products do not meet the expectation of customers. Lin *et al.* (2017) defined customer satisfaction as the feelings felt by customers after they compare performance with expectation. According to Mao (2010), angry or dissatisfied customers may cause problems, because they might change to products produced by other firms and spread negative word of mouth.

Kotler & Ketler (2017) stated that loyalty is the strong commitment of consumers to repurchase or subscribe a product or service, despite the various situational influence and marketing attempts that may potentially cause the consumers to change to other products. According to Mullins & Walker (2010), loyal consumers are indicated by the act of repurchasing products, spread positive word of mouth, and purchasing premium products offered by the firm. Coelho & Henseler (2012) and Lenka *et al.* (2009) argued that loyalty is a situation in which consumers have a positive evaluation regarding the product or service and consistently repurchase the product even when there are other alternatives in the market.

Hypothesis Development and Conceptual Model

The influence of price fairness on customer loyalty

Al-Msallam (2015) stated that price fairness has a positive influence on customer loyalty. Nazari *et al.* (2014) research results revealed that price fairness has a positive and significant influence on customer loyalty. Kaura *et al.* (2015) also found that price fairness is an important factor to maintain customer loyalty. However, Jin *et al.* (2016) stated that price fairness does not have a significant influence on customer loyalty. Referring to the discussed studies, the first hypothesis is:

H1: Price fairness has a positive and significant influence on customer loyalty

The influence of service quality on customer loyalty

Kaura *et al.* (2015) stated that service quality has a positive and significant influence on customer loyalty. The research conducted by Chen *et al.* (2017), Dewi (2016) and Ngo *et al.* (2016) also found that service quality has a significant influence on customer loyalty. According to Jin *et al.* (2016), service quality has a positive and significant influence on customer loyalty. However, Sachro *et al.* (2013) found that service quality did not significantly influence the loyalty of train customers. Based on the research results in previous studies, the hypothesis is:

H2: Service quality has a positive and significant influence on customer loyalty

The influence of price fairness on customer satisfaction

Satisfaction is influenced by price fairness (Gumussoy *et al.*, 2016 and Herawaty *et al.*, 2016). Jin *et al.* (2016) stated that price fairness is the subjective evaluation of what is paid or sacrificed to obtain a product. The research results obtained by Hanaysha (2016) revealed that price fairness has a positive and significant influence on customer satisfaction. Al-Msallam (2015) also stated that price fairness is positively related to customer satisfaction. Kaura *et al.* (2015) and Consuegra *et al.* (2007) showed that the price fairness felt by customers influence their satisfaction. Thus, the third hypothesis is:

H3: Price fairness has a positive and significant influence on customer satisfaction

The influence of service quality on customer satisfaction

Gumussoy *et al.* (2016) and Abdullah *et al.* (2018) stated that service quality has a positive and significant influence on customer satisfaction. The research results obtained by Kaura *et al.* (2015), Hidayat & Asnawi (2019), Dewi (2016), and Soleimani *et al.* (2008) revealed that service quality has a direct influence on the satisfaction of customers. Thus, the fourth hypothesis is:

H4: Service quality has a positive and significant influence on customer satisfaction

The influence of customer satisfaction on customer loyalty

Al-Msallam (2015) stated that customer satisfaction is positively related to customer loyalty. Gumussoy et al. (2016) and Dewi (2016) stated that the influence of customer satisfaction on customer loyalty is significant. Fernandes et al. (2016) found that not all variables they examined directly influence customer loyalty, but the variables were mediated by customer satisfaction. Based on the discussed results, the hypothesis is as follows:

H5: Customer satisfaction has a positive and significant influence on customer loyalty

The role of customer satisfaction in mediating the influence of price fairness on customer loyalty

The customer satisfaction is capable of mediating the influence of price fairness on customer loyalty. Also, customer satisfaction was found to be capable of mediating the relationship between service quality, perceived price fairness, service convenience, and customer loyalty (Kaura et al., 2015). Based on the discussed studies, the following hypothesis is developed:

H6: Customer satisfaction mediates the influence of price fairness on customer loyalty

The role of customer satisfaction in mediating the influence of service quality on customer loyalty

Customer satisfaction was found to be a mediating variable in the influence of service quality, perceived price fairness, and customer loyalty (Kaura et al., 2015). Customer satisfaction can partially mediate the relationship between service quality and revisit intention (Osman, 2013 and Abdullah et al., 2018). Dewi (2016) and Ngo et al. (2016) also stated that customer satisfaction partially mediates the influence of service quality on customer loyalty. Based on these results, the following hypothesis can be formulated:

H7: Customer satisfaction mediates the influence of service quality on customer loyalty

The conceptual model in this study is shown in the figure below:



Figure 1. Research Conceptual Model

2 Materials and Methods

This research is an associative quantitative study that discusses the relationship between customer satisfaction, price fairness, service quality, and customer loyalty. The data collected were cross-sectional data. The population in this study are customers who have purchased the tickets and traveled using low-cost domestic carriers from Jakarta to Bali in the years of 2017-2019, hence the total population cannot be determined with certainty (infinite). The sampling technique used was the non-probability purposive sampling method. The total number of research samples is 175 respondents. The data were collected through a questionnaire that used the 5 points Likert scale.

The price fairness construct used in this study adapted and modified the indicators used in the study by Gumussoy et al. (2016) and Hermawaty et al. (2016), for service quality the indicators used were adapted and modified from the research conducted by Chen et al. (2017) and Parasuraman et al. (1988), for customer satisfaction and customer loyalty the indicators used were adapted and modified from the research conducted by Cheng et al. (2019) and Kaura et al. (2014). The analysis technique utilized in this study was the Structural Equation Model, with SmartPLS 3.0 as the analysis tool.

3 Results and Discussions

Characteristics of respondents

The respondents in this study are people who have purchased domestic flight tickets in Indonesia over the last six months and are domiciled in Jakarta. The majority of respondents are women with an age between 18 – 28 years old, have a bachelor's degree, and are already working. This information indicates that customers can purchase tickets for themselves and have high mobility or a high tendency to work in other cities. The majority of respondents have a level of income between three million and eight million rupiah. This indicates that most of the respondents have sufficient income and prefer to buy low-cost airline tickets in Indonesia. The data regarding the respondents' most frequently used airlines shows that 42.3 percent of respondents use Lion Air, 32 percent use AirAsia, and the remaining 25.7 percent use Citilink.

Instrument test results

The research instruments are deemed to be valid if the correlation coefficient value is equal to or greater than 0.30. All variable instruments in this study have a correlation coefficient of greater than 0.30, which means that the instrument validity requirements have been fulfilled. The variable is deemed to be reliable if it has a Cronbach's Alpha (α) value of greater than 0.70. 30 respondents were used as samples to test the reliability of the instruments. All variable instruments in this study have a Cronbach's Alpha (α) value of higher than 0.70. This means that all the instruments in this study are reliable.

Measurement model

Outer model evaluation

Three criteria are used to evaluate the outer model, namely, convergent validity, discriminant validity, and composite reliability. All indicators in this study have a loading factor value of greater than 0.70 and a p-value of less than 0.05, which indicates that the convergent validity requirements are fulfilled. The cross-loading value obtained by each latent variable is higher than the other latent variables, which indicates that the discriminant validity requirement has been fulfilled. The composite reliability and the Cronbach's Alpha value of each construct are greater than 0.70, which means that the requirement of good reliability has been fulfilled.

Inner model

In the structural model, there are two dependent variables, namely: customer satisfaction (Y_1) and customer loyalty (Y_2). The coefficient of determination (R^2) of each dependent variable is presented in Table 1.

Table 1
R-square of the Dependent Variable

Variable	R-square	R-square Adjusted
Customer satisfaction (Y_1)	0,475	0,469
Customer loyalty (Y_2)	0,695	0,689

Source: Computed primary data, 2020

Table 1. shows that the influence of price fairness and service quality on customer satisfaction has an R^2 value of 0.475. This indicates that 47.5 percent of the variability in customer satisfaction can be explained by the variability in price fairness and service quality, while the 52.5 percent left is explained by other variables not examined in the study. Furthermore, the influence of price fairness, service quality, and customer satisfaction on customer loyalty have an R^2 value of 0.695 which indicates that 69.5 percent of the variability in the customer loyalty variable can be explained by the variability in price fairness, service quality, and customer satisfaction, while the 30.5 percent is explained by other variables not examined in the study.

To measure the quality of the model's predictive power and parameter estimates, the Q-square (Q^2) value must be calculated. The following equation is used for its calculations:

$$\begin{aligned}
 Q^2 &= 1 - (1 - (R_1)^2) (1 - (R_2)^2) \\
 &= 1 - (1 - 0,475) (1 - 0,695) \\
 &= 1 - (0,525) (0,305) \\
 &= 1 - 0,160 \\
 &= 0,840
 \end{aligned}$$

Q^2 values have a range between $0 < Q^2 < 1$, in which a better model is indicated by a value closer to 1. The calculation results show that the Q^2 value is 0.840. Thus, it can be concluded that the model has good predictive relevance. This value indicates that 84 percent of the variations in customer loyalty is influenced by price fairness, service quality, and customer satisfaction, while the 16 percent is influenced by other variables not examined in this study.

Direct influence

The analysis results using the partial least square analysis is displayed in Figure 2.

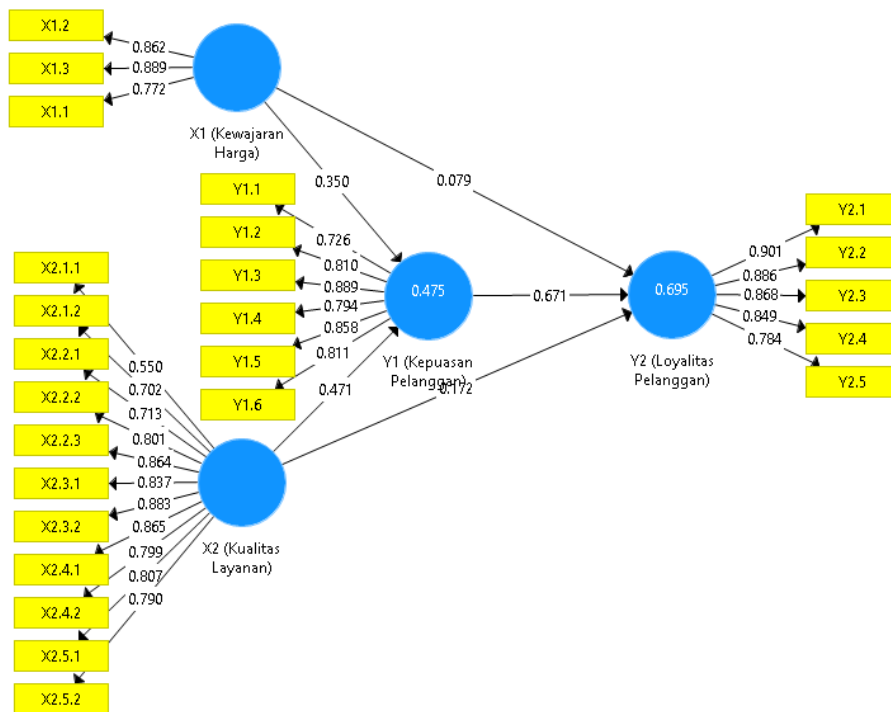


Figure 2. Structural Model

Figure 2 shows that price fairness has a direct influence on customer loyalty with a coeff. of 0.079, service quality has a direct influence on customer loyalty with a coefficient of 0.172. Price fairness has a direct influence on customer satisfaction with a coefficient of 0.471. Service quality has a direct influence on customer satisfaction with a coefficient of 0.471. Customer satisfaction has a direct influence on customer loyalty with a coefficient of 0.671. The direct influence test results and the recapitulation of the mediation test results are displayed in Table 2. and 3.

Table 2
Direct Influence Test Results

Path Coefficient between Variables	Path Coefficient	T-Statistics	P-Value	Remarks
Price fairness (X ₁) → Customer loyalty (Y ₂)	0,079	1,126	0,261	Insignificant
Service quality (X ₂) Customer loyalty (Y ₂)	0,172	2,642	0,009	Significant

Price fairness (X_1) → Customer satisfaction (Y_1)	0,350	4,700	0,000	Significant
Service quality (X_2) → Customer satisfaction (Y_1)	0,471	5,969	0,000	Significant
Customer satisfaction (Y_1) → Customer loyalty (Y_2)	0,671	9,617	0,000	Significant

Source: Computed primary data, 2020

Table 3
Recapitulation of the Mediation Test Results

Variable Mediation	Effect				Remarks
	(A)	(B)	(C)	(D)	
Price fairness (X_1) → Customer satisfaction (Y_1) → Customer loyalty (Y_2)	0,235 (Sig.)	0,079 (Non Sig.)	0,350 (Sig.)	0,671 (Sig.)	Full Mediation
Service quality (X_2) → Customer satisfaction (Y_1) → Customer loyalty (Y_2)	0,316 (Sig.)	0,172 (Sig.)	0,471 (Sig.)	0,671 (Sig.)	Partial Mediation

Source: Computed primary data, 2020

The influence of price awareness on customer loyalty

The hypothesis test result shows that the influence of price fairness on customer loyalty has a correlation coefficient of 0.079, and the t-statistics value is 1.126 ($<$ t-critical 1.96). Thus, H1 is rejected. This indicates that price fairness has a positive and insignificant influence on customer loyalty. In other words, a better price fairness level perceived by customers does not guarantee that it will increase the loyalty of these customers. This study agrees with [Jin et al. \(2016\)](#) who revealed that price fairness has a positive and insignificant influence on customer loyalty.

The influence of service quality on customer loyalty

The relationship between service quality and customer loyalty has a t-statistics value of $6.026 \geq$ t-critical value (1,96) and a p-value of $0.000 < 0,05$. Thus, H2 is accepted. The analysis result shows that service quality has a positive and significant influence on customer loyalty. This result indicates that the values of a good service quality are well-perceived by customers and have a real impact on loyalty. The greater the service quality provided by the LCCs, the greater the loyalty of their customers. This research supports the results obtained by [Chen et al. \(2017\)](#), [Dewi \(2016\)](#), [Ngo et al. \(2016\)](#), [Kaura et al. \(2015\)](#) and [Jin et al. \(2016\)](#) which revealed that service quality has a positive and significant influence on customer loyalty.

The influence of price fairness on customer satisfaction

The hypothesis test results show that the influence of price fairness on customer satisfaction has a correlation coefficient of 0.350, and the t-statistics value is 4.700 ($>$ t-critical 1.96). This means that H3 is accepted. This result indicates that price fairness has a positive and significant influence on customer satisfaction. This means that the more customers feel that the price of the LCC ticket is reasonable, the greater their satisfaction towards the LCC. This study agrees to the results obtained by [Hanaysha \(2016\)](#), [Martín-Consuegra et al. \(2007\)](#), [Al-Msallam \(2015\)](#), [Kaura et al. \(2015\)](#), and [Gumussoy et al. \(2016\)](#) in which price fairness has a positive and significant influence on customer satisfaction.

The influence of service quality on customer satisfaction

The result shows that the influence of service quality on customer satisfaction has a correlation coefficient value of 0.471, and a t-statistics value of 5.969 ($>$ t-critical 1.96). This means that H4 is accepted. The analysis results show that service quality has a positive and significant influence on customer satisfaction. This means that the greater the quality of service provided by LCCs, the greater the satisfaction of the flight customers. This study supports the research results obtained by [Kaura et al. \(2015\)](#), [Gumussoy et al. \(2016\)](#), [Abdullah et al. \(2018\)](#), [Hidayat & Asnawi](#)

(2019), Dewi (2016) and Soleimani et al. (2008) which found that service quality has a positive and significant influence on customer satisfaction.

The influence of customer satisfaction on customer loyalty

The result shows that the influence of customer satisfaction on customer loyalty has a correlation coefficient of 0.67, and a t-statistics value of 9.617 ($> t$ -critical 1.96). Thus, H5 is accepted. The analysis result shows that customer satisfaction has a positive and significant influence on customer loyalty. This means that the higher the satisfaction of LCC customers, the higher their loyalty towards the LCC. This result is in line with the research conducted by Al-Msallam (2015), Gumussoy et al. (2016), Dewi (2016), and Fernandes et al. (2016) which also revealed that customer satisfaction has a positive and significant influence on customer loyalty.

The role of customer satisfaction in mediating the influence of price fairness on customer loyalty

The mediation test conducted in this study proves that customer satisfaction is able to mediate the indirect influence of perceived price fairness on customer loyalty. Effect A; C; and D have a significant and positive value, while effect B, which is the direct influence of the independent variable (price fairness) on the dependent variable (customer loyalty) has an insignificant value. This indicates that customer satisfaction is able to fully mediate the influence of price fairness on customer loyalty. This means that with a higher level of customer satisfaction towards the LCC, the influence of price fairness on the loyalty of LCC customers will also be greater. This conforms with the study conducted by Kaura et al. (2014) which revealed that customer satisfaction is a mediator between the dimensions of service quality, perceived price fairness, service convenience, and customer loyalty. This result is also consistent with the results obtained by Yasa et al. (2018) which showed that customer satisfaction mediates the relationship between price fairness and customer loyalty.

The role of customer satisfaction in mediating the influence of service quality on customer loyalty

Customer satisfaction is able to mediate the indirect influence of service quality on customer loyalty. This is proven in the mediation test. Effect A; C; and D have a significant and positive value, while effect B, which is the direct influence of the independent variable (service quality) on the dependent variable (customer loyalty) has a significant value. The analysis result shows that customer satisfaction is able to partially mediate the influence of service quality on customer loyalty. This means that a higher degree of customer satisfaction is able to increase the influence of service quality on the loyalty of LCC customers. This result is in line with the study conducted by Dewi (2016) and Ngo et al. (2016) which stated that customer satisfaction partially mediates the influence of service quality on customer loyalty.

4 Conclusion

The research results show that price fairness has a positive but insignificant influence on customer loyalty, service quality and customer satisfaction have a positive and significant influence on customer loyalty, price fairness and service quality have a positive and significant influence on customer satisfaction, customer satisfaction fully mediates the influence of price fairness on customer loyalty, and customer satisfaction partially mediates the influence of service quality on customer loyalty. The practical implication of this research is that the managers of LCCs should set prices in accordance with the quality they provide. This is to avoid the perception or view that the price is not appropriate or unreasonable, which may lead to customers choosing other transportation means.

The research scope is limited to the customers who use LCCs to travel from Jakarta – Bali, therefore the results cannot be used for generalization purposes. This study was conducted over one period of time, while the environment might change dynamically over an extended period. This research may also be conducted in other regions, with a different time frame, or with other categories of products or services. This research is only limited to examining the satisfaction of customers, price fairness, and service quality as the variables that influence customer loyalty. In future studies, other variables should also be examined in order to improve the loyalty of customers.

Conflict of interest statement

The authors declared that they have no competing interests.

Statement of authorship

The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

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