

# CHAPTER I

## INTRODUCTION

### 1.1 Background of The Study

Air travel, driven by liberalization and globalization, remains the fastest-growing market. Focus on service quality is highly needed if the airlines aspire to improve their market share and further enhance their financial performance in domestic and international markets (Al-Refaie et al., 2014). The amount of passenger traffic was up approximately 7.4% and capacity was up 6.7% in 2015 alone. In the end, that is a record breaking 80% world wide. Because of lower gas prices, and varied aircraft efficiencies, airlines expected net profits of \$35 billion dollars in 2015. Since then, key trends in aviation have skyrocketed and analysts expect to see this progression increase in the coming years (<http://www.aviationmaintenance.edu>, retrieved on 5 September 2017).

Asian airlines and their increasing passenger numbers are driving global aviation markets. Aviation experts at Endau Analytics envisage that APAC (Asia Pacific) will account for up to half of total annual increase in air traffic by 2020. According to Yusof (2016), the Asia Pacific's aviation industry nowadays has experienced remarkable growth over this past decade. In fact, there is 230 airlines in Asia which is estimated as 27 percent of the world commercial aircraft fleet, according to global analytics firm IHS (Information Handling Services). Asia Pacific also accounted for around 28 percent of international and 40 percent of domestic scheduled air passenger traffic last year (Biswas, 2016).

There are driving factors behind the Asian airlines remarkable growth in this past decade. According to Biswas (2016) the sharp increase in Asian airline passenger numbers reflects fast-rising household incomes in many of these countries, as well as the rapid growth of Asian low-cost carriers, which have helped to make air travel much more affordable in Asia. Meanwhile, analyst Yusof (2016) has a similar view, leisure travel is the main activity for many passengers, so it can be seen that low-cost airlines among the most active players in the region - flag

carriers less so, given the decline in premium travel. Indeed, Asian budget airlines have significantly expanded their fleet sizes over the last decade and now account for around one-third of the global low-cost carrier passenger market.

In 2015, the number of domestic air passengers in Asian grew by 10.5 percent, while the number of international air passengers rose by 8.2 percent, according to IHS. These numbers are expected to keep growing in the coming years, as the analytics firm projects the region's commercial air transport sales to grow at 9.2 percent per year in nominal USD terms over 2016-2020. According to Biswas (2016) among the key factors driving this trend will be the significant fall in APAC's air transport operating costs due to the sharp decline in oil prices - jet fuel accounts for around one-third of APAC airline costs - as well as a strong growth in passenger numbers (<http://www.dw.com>, retrieved on 5 September 2017).

Indonesia's aviation industry has recorded robust growth marked by increased passenger numbers, expanding fleets, and increased flights. The aviation sector offers huge investment opportunities given the country's unique geographical conditions coupled with a rising middle-class and a strengthening domestic as well as international tourism industry. Ever since the Indonesian government deregulated the aviation industry in 2000, Indonesia's aviation sector has been growing at a brisk pace in terms of passengers, airlines, fleets, flights, and airports. For example, the number of airline passengers has increased from 9 million in 1990 to around 90 million in 2016. The same goes for the country's airline fleets which have soared in numbers by more than ten-fold from 102 aeroplanes in 1990 to 1,030 in 2017 (<http://www.gbgindonesia.com>, retrieved on 5 September 2017).

The remarkable growth of Indonesia's aviation industry is underpinned by the country's continued economic growth, the emergence of low-cost carriers, and the growing number of affluent and middle-class families. Indonesia's unique geographical nature whereby most of its major cities are separated by mountain ranges and seas means that transportation by land or sea can take days and this gives the aviation sector a competitive edge. It is therefore only natural that as airline

tickets becomes increasingly affordable, Indonesians opt for plane travel over cumbersome and lengthy journeys (Global Business Guide Indonesia, 2017).

The aviation industry in the Asia-Pacific region remains one of the world's fastest growing regions in terms of air passengers, according to Indonesia National Air Carrier Association (INACA) (2016) whereas worldwide the number of air passengers is growing at a pace of nearly 7 percent, Indonesia's air passenger growth is estimated at around 15 percent (<https://www.indonesia-investments.com>, retrieved on 5 September 2017).

**Number of Air Passengers in Indonesia 2011 - 2015:**

	2011	2012	2013	2014	2015
<b>Air Passengers</b> (in million)	62.4	66.4	68.6	72.6	82.4

*Figure 1*

Number of Air Passengers in Indonesia 2011 – 2015

*Note.* <http://www.indonesia-investments.com> (retrieved on 5 September 2017)

**Number of Air Passengers in Indonesia January - May 2016:**

	Jan-May 2016	Y/Y Growth
<b>Domestic Passengers</b> (in million)	31.5	+18.0%
<b>International Passengers</b> (in million)	5.9	+6.2%
<b>Total</b> (in million)	37.4	+16.0%

*Figure 2*

Number of Air Passengers in Indonesia January – May 2016

*Note.* <http://www.indonesia-investments.com> (retrieved on 5 September 2017)

Singapore Airlines has come a long way since founded in 1972, evolving from a regional airline to one of the most respected travel brands around the world. They fly one of the youngest aircraft fleets in the world to destinations spanning a network spread over six continents, with their Singapore Girl as Singapore Airlines internationally-recognisable icon providing the high standards of care and service

that customers have come to expect of customers (<http://www.talaviation.com/>, retrieved on 4 October 2017).

Singapore Airlines have made a habit of leading the way, and along the way developed a reputation for being an industry trendsetter. Singapore Airlines is a pioneer in some facilities or features in their fleet or aircraft. Singapore Airlines is the first to offer free headsets, a choice of meals and free drinks in Economy Class, in the 1970s, which will be followed by many other airlines. Singapore Airlines also become the first airline to introduce satellite-based in-flight telephones in 1991. Also, become the pioneer to involve a comprehensive panel of world-renowned chefs, the International Culinary Panel, in developing in-flight meals in 1998. Singapore Airlines also become the first to offer audio and video on demand (AVOD) capabilities on Kris World in all classes in October 2001 (<https://www.leestravel.com/>, retrieved on 5 September 2017). Apart from those in-flight facilities, Singapore Airlines is the first airline to fly the A380 from Singapore to Sydney on 25 October 2007. Airbus 380 is the biggest superjumbo aircraft in the world (<http://news.bbc.co.uk/>, retrieved on 7 October 2017).

According to Wirtz (2017), Singapore Airlines basically has two major assets; namely planes (airplanes) and people (people who work in it). Singapore Airlines manages both assets in such a way that the services are better than competitors, as well as lower operational costs. Unlike other airlines, Singapore Airlines ensures the fleet of aircraft that it has to be in a young age. In 2009, the average Singapore Airlines aircraft was 74 months old, or less than half the average age of aircraft in the aviation industry that ranges from 160 months. That way, the Singapore Airlines can ensure smooth flight as the aircraft arrives on time, little delay, and rare mechanical damage. The new aircraft is more fuel efficient. At the same time the cost of repairs and maintenance are not expensive.

Singapore Airlines is the airline that invests the most in human resources. The Singapore Airlines recruits a new workforce every four months, twice as long as the industry average for eight weeks. The total cost spent by the airline reaches

US \$ 70 million annually to put at least 14,500 employees through 110 hours of training each year. The courses taught include courses on ethics, how to appreciate customers, and cultural sensitivity. The Singapore Airlines cabin crew is trained to interact with passengers from any country in various ways (<http://marketeers.com/>, retrieved on 15 November 2017).



*Figure 3*

Singapore Airlines Flight Attendants

*Note.* <http://www.singaporeair.com> (retrieved on 5 September 2017)

Singapore Airlines is aiming more passengers to Indonesia through the entrance of Juanda International Airport. As the second largest city in Indonesia, the city of Surabaya is considered important for the Singapore Airlines market. According to Chiang (2016) The market in Surabaya is very strategic and growing. Singapore Airlines want to make more tourists into East Java because the location is fitting. The airline that operates only large aircraft that serves twice the flight route between Juanda Airport and Changi, Singapore.

Singapore Airlines has been serving Surabaya for 25 years. Singapore Airlines has a flight in the morning and one Silk Air flight at night (Chiang, 2016). Hartono (2016) had explained the trend of Singapore tourists who visit to play golf. The reason is, the rupiah is relatively more cost-efficient in the pockets although the golf course is equally international standard. But actually, according to Chiang

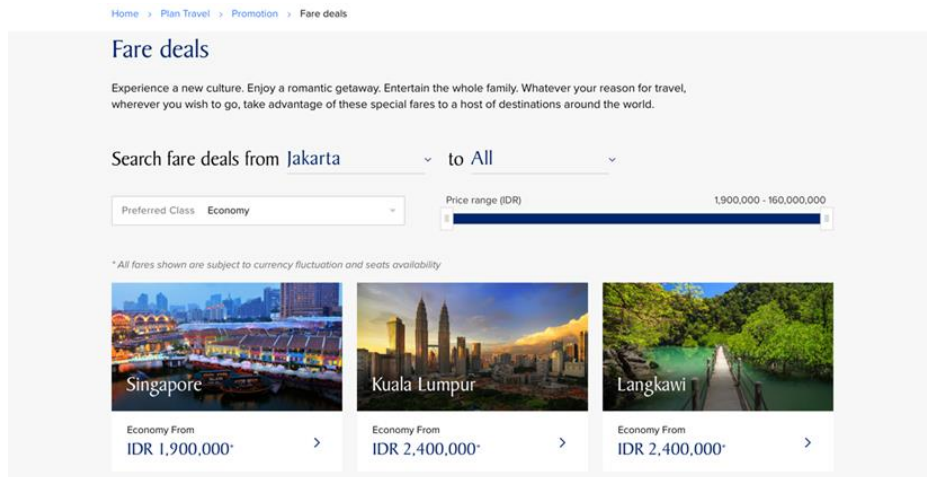
(2016), customers have plenty of attractions to offer. Therefore, golf is just one of them (<http://travel.tempo.co>, retrieved on 5 September 2017).

As a service company, convenience is very vital for Singapore Airlines. Therefore, *Service Convenience* is very essential. Berry et al. (2002) defined *Service Convenience* as the consumer's time and effort perceptions related to buying or using a service. For Singapore Airlines, delivering a convenient service to passengers is essential for airlines survival. Airline service quality is a significant driver of passenger's satisfaction, passenger loyalty, and passenger's choice of airline. According to Berry et al. (2002), there are several types of service convenience. Those are, *Decision Convenience*, *Access Convenience*, *Transaction Convenience* and *Benefit Convenience*

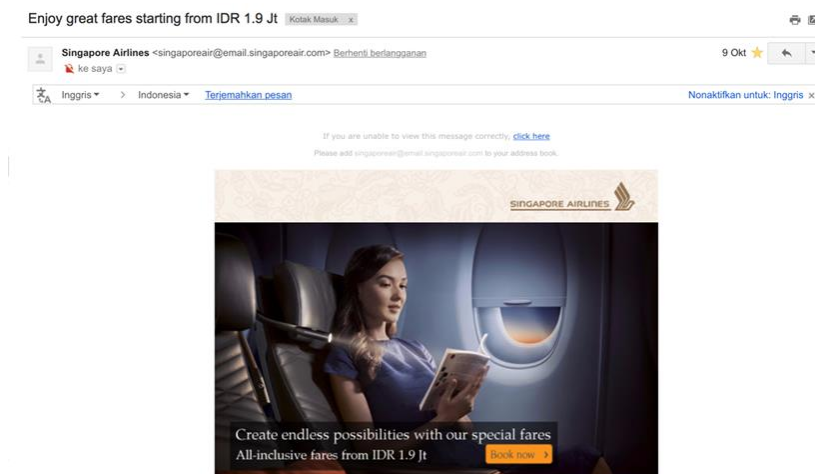
*Decision Convenience* happens when the consumers have recognized the need for a product or service is immediately faced with the decision of which supplier and offering to choose (Berry et al., 2002). Singapore Airlines always provide the necessary information clearly for the customer before the customer buy the Singapore Airlines service. For instance, Singapore Airlines gives the customers information about the special fares. The fare deals can be checked through Singapore Airlines official website, exactly at the main page. The consumers can check the fare deals by selecting their departing city and afterwards, the customer can select the destination they want to go. Singapore Airlines has a huge flight network. Singapore Airlines serves all continents in the world, makes the world become more connected. From a city in South Africa like Johannesburg, New York City in United States, until Paris in France, Europe (<http://www.singaporeair.com>, retrieved on 14 November 2017).

Singapore Airlines also sends the signed member customer with newsletter on email. This will make the customer even become easier to get an information about the Singapore Airlines promotional fares. Because not all of the customers are usually checking the promotion on Singapore Airlines official website routinely. Therefore, if Singapore Airlines sends them an email message, the

customer will be easily to get a notification about the promotion or special offers without necessarily checking the website. The information received is also very clear and easy to read. This will give the customer a convenience in making up their mind to buy the air ticket.



*Figure 4*  
Singapore Airlines Special Fares  
*Note.* <http://www.singaporeair.com> (retrieved on 11 November 2017)



*Figure 5*  
Singapore Airlines Newsletter  
*Note.* <http://mail.google.com> (retrieved on 11 November 2017)

*Access convenience* is defined by Berry et al. (2002) as the consumers' perceived time and effort expenditures to initiate service delivery. The customer service of Singapore Airlines is very accessible and very easy to reach. Singapore

Airlines has a reservation and ticketing office in Surabaya. The office is located at the Surabaya central business district. Aside of their comfortable office, Singapore Airlines office also has a convenient operation hours. The office also can be reached through various ways, such as, through email, telephone and fax.

<b>**Reservation &amp; Ticketing Office</b>	
<b>Email</b>	<a href="mailto:res_sub@singaporeair.com.sg">res_sub@singaporeair.com.sg</a>
<b>Telephone</b>	+62 31 5319215 / 16 / 17 / 18
<b>Fax</b>	+62 31 5319214
<b>Operation Hours</b>	Monday - Friday 0815 - 1700 Saturday 0815 - 1300 Sunday and Public Holiday: Closed
<b>Address</b>	Pakuwon Center 22nd Floor unit 22.08 Jl Embong Malang 1,3,5 Surabaya 60261 - Indonesia

*Figure 6*

Singapore Airlines Office in Surabaya

*Note.* <http://www.singaporeair.com> (retrieved on 5 September 2017)

*Transaction convenience* is defined as consumers perceived expenditures of time and effort to effect a transaction (Berry et al., 2002). In essence, providing convenience during the transaction stage enables the Singapore Airlines consumer to efficiently assume possession of the acquired service. Singapore Airlines has a convenient and easily to be accessed website in case if the customer wants to do self-booking. The customers can complete the ticket purchase easily. There are several steps in booking the ticket. First, the customers need to choose the desired destination and the date of travel. Having done that, the customer can fill their passengers' details and select the seat for that passenger in each flight. Afterwards the customer will be offered by some add-ons, such as travel insurance, car rental and hotel. Lastly, the customer will proceed to the payment. Although there are several steps of making transaction, but mostly the customers can skip process that the customer does not necessarily fill. Such as selecting seats and the add-ons. There is several payment methods to finish the transaction, from credit card or debit card until redeeming the Kris Flyer miles. Kris Flyer is frequent flyer programme of



Singapore Airlines. Customers can collect their miles every time they fly with Singapore Airlines or another Star Alliance member. Such as, Asiana Airlines, All Nippon Airways and Eva Air (<http://www.singaporeair.com/>, retrieved on 14 November 2017).

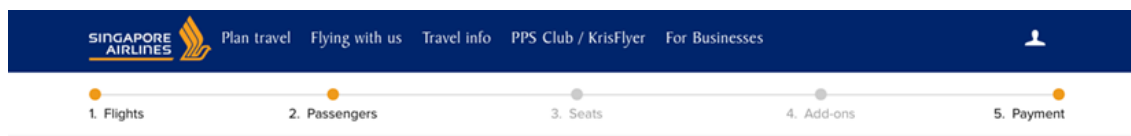


Figure 7

Singapore Airlines Transaction Steps

Note. <http://www.singaporeair.com/> (retrieved on 14 November 2017)

*Benefit convenience* is defined as consumers perceived time and effort expenditures to experience the service's core benefits (Berry et al., 2002). Once a consumer has accessed and purchased a Singapore Airlines ticket and then departing on a Singapore Airlines flight, the consumption of the service begins (Peter and Olson, 1999). Along with consumption comes the confirmation (or disconfirmation) of the benefits of the service (Churchill and Surprenant, 1982).

Singapore Airlines in-flight service and cabin crew are legendary in the industry. According to Hee (2017), the crew often think of themselves as hosts on board the aircraft, with the customer as guests in their home. When they fly, they're like a very attentive host who looks after the passengers without really needing the customer to ask for drinks or water. The cabin crew, even in economy class, frequently walks down the aisle offering drinks, warm towels. The whole concept behind it is to take care of the passengers and look after the passengers needs before the passengers need to call them or make a request. The movies are a pleasure to watch on Singapore's high-res 10.6- or 11.1-inch screens, and passengers can still track your flight mid-movie on a separate mobile phone-sized screen below. There are more than 1000 options to choose from on Singapore's in-flight entertainment system, including more than enough English and foreign-language TV shows and movies. The seat pitches on Singapore Airlines economy range from 32 inches to 34 inches, which is slightly more than standard on other full-service carriers. Those seats are also extremely comfortable for this class, and all on the A380s have AC

power, as well as Wi-Fi access. The food is also excellent, with both Western and Asian options designed by SQ's "International Culinary Panel" of eight renowned chefs, including Australia's Matt Moran and Frenchman Georges Blanc (<http://www.wanderlust.co.uk/>, retrieved on 14 November 2017).



*Figure 8*  
Singapore Airlines Solved the Passengers Problem  
*Note.* [http://www.wanderlust.co.uk](http://www.wanderlust.co.uk/) (retrieved on 14 November 2017)

*Corporate Brand Image* is defined as customer responses to brand name, sign, impression and represented the product quality (Magid et al., 2006). A company with a good image is more likely to stand out in the marketplace because it draws both repeat customers and trial users. The image of the Singapore Airlines is important in reflecting a distinctive competence in comparison with the competitors, making the airline's name, symbol, or identity distinctive with a corresponding appeal. A favorable image separates and distinguishes the company from its competitors. Thus, a favorable image of a specific airline can lead passengers to contemplate air travel. Singapore Airlines has been named as one of the most admired company in the world. Fortune magazine has published its annual 'World's Most Admired Companies' list, placing Singapore Airlines in the prestigious Top 50 ranking of global companies. Singapore Airlines is the highest-ranked Asian company and 1 of only 3 airlines listed. At the same time, it is the only company from Singapore. Singapore Airlines is on this list along to other respected companies in the world. Those companies include Toyota, Apple, Nestle,

Exxon Mobil, Microsoft, Intel and McDonald's (<http://www.asiaone.com>, retrieved on 14 November 2017).

*Customer Perceived value* has been defined as the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given (Zeithaml, 1988). In other words, customers compare the benefits of the service received with the necessary sacrifice required to get the service (Lee et al., 2004). Therefore, Singapore Airlines always gives the passengers an excellent service in order to get a great assessment by the customer. Every year Travel + Leisure ask readers to weigh in on travel experiences around the globe for the World's Best Airline Awards survey. Singapore Airlines has been voted the number one airline in the, proving it continues to impress travellers with cabin comfort, service, food, customer service, and value. Singapore Airlines keep innovates and has been becoming the perfect the art of flying well. Passengers calling it akin to flying the premium economy with business-class service on lesser carriers. "By far, the most wonderful airline I have ever flown on! It has made me spoiled and unwilling to fly anywhere it doesn't," said one loyal passenger (<http://www.travelandleisure.com>, retrieved on 9 November 2017).

*Customer Satisfaction* is an emotional reaction to the difference between what customers anticipate and what they receive (Zineldin, 2000). When customers are satisfied, they are more likely to return, while dissatisfied customers are more likely to go elsewhere (Heskett et al., 1994). It can be defined as the degree which one believes that an experience evokes positive feelings. Singapore Airlines has been named as the world's second best airline in the latest passenger survey by international air transport rating organisation Skytrax, moving up one spot from last year's (2016) rankings (<http://www.todayonline.com>, retrieved on 4 October 2017). This award proves that Singapore Airlines meet the passenger's expectations and the customer feels satisfied.

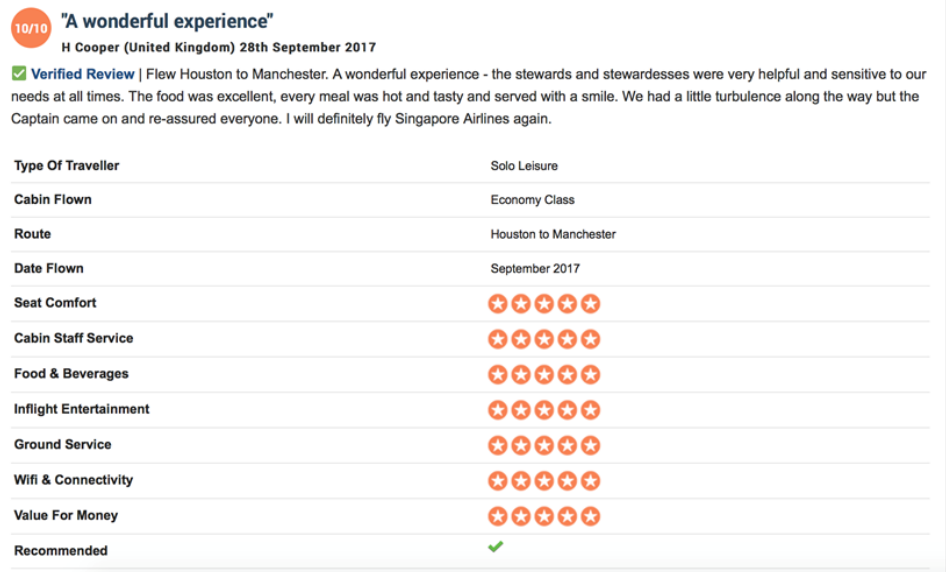


Figure 9

Singapore Airlines Review by Customer

Note. <http://www.airlinequality.com/> retrieved on 12 November 2017

Customer *Loyalty* is defined as a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1997). Hence, the Singapore Airlines passengers will show repeat purchase behaviour. Although, there are some marketing efforts from other airlines, the customer will stay loyal and keep flying with the airline. Good evidence is that the load factor of Singapore Airlines passengers has increased. In January 2016, passenger numbers rose 3.7 percent to 80.2 percent year-on-year compared to January 2015 at 76.5 percent (<https://travel.tempo.co>, retrieved on 5 September 2017).

## 1.2 Research Problems

The following research problems are tested in this study:

1. Does Convenience significantly affect Customer Satisfaction of Singapore Airlines in Surabaya?
2. Does Corporate Brand Image significantly affect Customer Perceived Value of Singapore Airlines in Surabaya?
3. Does Corporate Brand Image significantly affect Customer Satisfaction of Singapore Airlines in Surabaya?

4. Does Corporate Brand Image significantly affect Customer Loyalty of Singapore Airlines in Surabaya?
5. Does Customer Perceived Value significantly affect Customer Satisfaction of Singapore Airlines in Surabaya?
6. Does Customer Perceived Value significantly affect Customer Loyalty of Singapore Airlines in Surabaya?
7. Does Customer Satisfaction significantly affect Customer Loyalty of Singapore Airlines in Surabaya?

### **1.3 Research Objectives**

The general objective of this proposed research is to identify the factors that affect the passenger's satisfaction and loyalty. In addition, the specific objectives of the research are as follows:

1. To analyze the effect of Convenience on Customer Satisfaction of Singapore Airlines in Surabaya.
2. To analyze the effect of Corporate Brand Image on Customer Perceived Value of Singapore Airlines in Surabaya.
3. To analyze the effect of Corporate Brand Image on Customer Satisfaction of Singapore Airlines in Surabaya.
4. To analyze the effect of Corporate Brand Image on Customer Loyalty of Singapore Airlines in Surabaya.
5. To analyze the effect of Customer Perceived Value on Customer Satisfaction of Singapore Airlines in Surabaya.
6. To analyze the effect of Customer Perceived Value on Customer Loyalty of Singapore Airlines in Surabaya.
7. To analyze the effect of Customer Satisfaction on Customer Loyalty of Singapore Airlines in Surabaya.

### **1.4 Research Contributions**

1. Singapore Airlines

This research may be useful for Singapore Airlines, as air transportation provider serving in Indonesia for Indonesian that wants to travel overseas, because

the result of the study shows the needs, wants from their customers in order to keep the loyalty of travel consumer in Indonesia specially in Surabaya.

## 2. Academic reference

The research is very helpful and practical to the benefit of the researcher and others who would take in-depth research regarding customer loyalty in air travel in Indonesia.

### **1.5 Research Limitations**

The focus of this research is the identification for significant factors of service convenience which affect corporate brand image, customer perceived value, customer satisfaction and customer loyalty on using Singapore airlines services for travel. Service convenience based on: decision convenience, access convenience, transaction convenience and benefit convenience. The respondents for this research are limited to frequent flyer respondents, customer of Singapore Airlines. The research is conducted around Surabaya area.

### **1.6 Research Outline**

Research outline explains the systematic writing of this study. The outline is divided into five chapters as follows:

#### Chapter I

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

#### Chapter II

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has already been studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modelling efforts address the hypothesis to be tested.

### Chapter III

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

### Chapter IV

This chapter organizes the logical presentation of all findings in the research questions, and focus on how these key findings relate back to the theory and prior research presented in the beginning of the study.

### Chapter V

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topics by its theoretical, methodological, or substantive contributions that may be necessary to overcome the limitations of existing empirical facts.