THE INFLUENCE OF RELATIONSHIP MARKETING AND SERVICE QUALITY ON PRICE FAIRNESS: EVIDENCE FROM AIRLINES SECTOR IN JAVA ISLAND INDONESIA

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Abstract

This study aims to find alternative solution models through exploring and analyzing the data and information concerning the structural influence of relationship marketing and service quality on price fairness. The method in this research is descriptive and verificative with data analysis using Structural Equation Modelling. Primary data is collected through a survey toward 200 passengers of domestic scheduled full service airlines in the hub airports in Java island. The research shows that relationship marketing has a more dominant influence rather than service quality on price fairness. This study has some limitations so that further research can be carried out to develop the research model. The result of this research suggests to expand the study on its analysis unit in order to give wider contributions to studying price fairness.

Keywords: full service airlines, hub airport, price fairness, relationship marketing, service quality

INTRODUCTION

The competition in airline service industry has made customers smarter, price conscious, and base their choice on the benefits they will get. The airlines offering the concept of full service are prioritize the passengers from the aspects of comfort, security, quality meal service, entertainment, extra baggage, and other services not offered by the airlines with the concept of low cost carrier (LCC). Full service airlines have many additional services which become added values for the main service being offered. Such a condition makes customers have choices to spend their money. To consumers, the cost spent for fulfilling their needs and wants should

match their expectation to be satisfied (Kotler, Philip., & Kevin, 2007). Airline companies realize that customer satisfaction is a principle thing to achieve for obtaining customer loyalty.

In addition, according to (Özlen & Ergun, 2012), loyalty is important for the business continuity of a company. Research done by (Pi & Huang, 2011) measuring the indicators of repurchasing, purchasing a product or other services, refuses the service from competitors and refuses to recommend other people. In order to obtain customer loyalty, a company should create customer satisfaction. Among the ways a company can do to obtain loyalty is through offering prices that the customers can afford and through the corporate image.

Furthermore, (Martín-Consuegra, Molina, & Esteban, 2007) state that in order to determine the correlation between price and customer loyalty, it is necessary to discuss such concepts as price fairness and price acceptance first. (Virvilaite, Saladiene, & Skindaras, 2009) state there is a strong correlation between price fairness and customer loyalty. (Martín-Consuegra et al., 2007) in their study have found that there is a correlation between price fairness and customer satisfaction and loyalty in service companies. (Bei & Chiao, 2001) find the same result. This study aims to describe the influence of relationship marketing and service quality on price fairness implemented in the airline companies offering the concept of full service. therefore, this study can fill in the empirical gap between relationship marketing and price fairness.

LITERATURE REVIEW

Relationship Marketing

The concept of relationship marketing focuses more on the ongoing transactions and takes advantage of it as a base to build continuous marketing relations in the future, thus marketing process will not end at the time selling transaction happens. It is different from the business players who practice the concept of transactional marketing of which marketing process will end at the time selling transaction happens and the goods have moved from the seller to the buyer (Monroe, K., & Krishnan, 1997). Customers will have a strong committment if the relationship is considered important and the communication is a process used by consumers and companies to share information for mutual understanding (Morgan & Hunt, 1994). Meanwhile, trust is considered as an essential and important thing in business. Trust is the foundation for building and maintaining a long-term relationship (Singh & Sirdeshmukh, 2000), (Doney & Cannon, 1997). Trust in marketing theory is the base of a policy to develop and maintain a long-term relationship, to build a mutually favorable relationship with customers and to enhance competitiveness (Barney & Hansen, 1994). The measurement of relationship marketing refers to the study done by (Oly Ndubisi, 2007) on four dimensions: commitment, communication, conflict

handling, and trust. In addition, the measurement of these research variables have been done by some researchers, namely (Gedefaw, 2014), (Limo & Kosgei, 2014), (Kanagal, 2009), (Nwakanma, Hudson., Jackson, Annette Singleton., Burkhalter, 2007), (Pi & Huang, 2011), (Taleghani, Mohammad, & Tabatabaei, 2014).

From the above explanation, researchers have much studied relationship marketing so as to result in various definitions, although in principle those definitions have the same meaning: the companies who are able to maintain their customers longer will have a better performance compared to those who always rely on new consumers (Gummesson, 1998), (Gronroos, 2000), (Sheth, Jangdish N., & Atul, 2000), (Palmatier, 2008).

Service Quality

As the pioneers of service quality concept, (Parasuraman, Zeithaml, & Berry, 1988) state that overall, quality perception is the disconfirmation between customer expectation and the evaluation toward a service, or in the other word quality perception is the comparison between expectation and perception.

The concept of service quality proposed by Parasuraman is Servqual. (Grönroos, 1984) says that service quality is the function of what customers actually have received (technical quality) and how the service is delivered (functional quality). (Kotler, Philip., & Kevin, 2007) state that service quality is the long-term cognitive evaluation made by customers toward a company's service delivery. The research done by (Cronin & Taylor, 1994) finds a higher influence if the service quality measurement is based on performance, i.e. servperf measures the service quality based on consumer perception or its performance. Sevice quality measurement refers to the research done by (Gilbert & Wong, 2003), namely assurance (security), reliability (flight punctuality, consistence of service level), responsiveness (effective service), flight pattern (flight schedule and frequency), employees (appearance and attitude), facilities (check in, airport facilities, and aircraft), customization (individual attention to customers, anticipating passenger's needs).

Based on the definition of service quality as described above, it can be concluded that service quality is customer perception on the service being offered by the service provider to the users which can meet the user expectation and can influence the level of user satisfaction.

Price Fairness

Basically consumers tend to consider the correlation between price and their expectation toward the achievement of the product they want to buy. Therefore, selling price may be compared to the experience of previous buyers (Herrmann et al., 2007). Consequently, if the buyers feel that

the benefit being offered by the product is high, the buyers will feel the price is fairer, which is called Price Fairness (Monroe, K., & Krishnan, 1985). According to (Matzler, Renzl, & Faullant, 2007), price fairness is the consumer perception where the price difference accepted is fairly compared to others, makes sense, or the price which is acceptable. Price fairness measurement refers to the research (Martín-Consuegra et al., 2007) which describes it as a result or a process to achieve a fair or acceptable result. (Ruiz,David Martín., & Cataluna, 2008) state there are three price reference bases for consumers when assessing price fairness, namely: 1) previous price; 2) the price set by competitors; 3) the cost (price) charged by the company.

Based on the definitions from some experts, it can be concluded that price fairness is a condition in which consumers feel a fair difference between the benefits being received and the efforts incurred, and the price being offered makes sense regarding the comparison of price procedures related to standards, references or norms.

The implementation of relationship marketing in an airline company is to create and maintain the committed customers which are favorable to the company and at the same time minimizes the time and efforts incurred for the less favorable customers (Bitner, M. J., & Zeithaml, 2003).

(Kotler, Philip., & Kevin, 2007) state in order to make a stronger bond with customers, relationship marketing can be performed using three approaches, namely financial approach through the benefit of cost efficiencies by providing special discount and promotion price; social benefit by delivering more personal services; and structural bond through giving appreciation or any information needed by the customers. With these approaches, consumers' trust and acceptance will arise that the efforts incurred is equal to what they receive so that they feel the price being offered is fair.

This is in accordance with the result of (Martín-Consuegra et al., 2007) research stating that the concept of price fairness is that when consumers consider the price fairness equal to quality, they perceive the price will be favorable and make sense. Price fairness measurement uses five indicators: 1) fair price; 2) reference of price level, that is price comparison with similar products; 3) price discrimination; 4) price policy; 5) ethic, that is the price to set is a communication ethic, by which customers will be informed if any price changes.

The above explanation is used as the base to establish the hypothesis in this research, namely: *Relationship marketing and service quality have influences on the price fairness of domestic scheduled full service airlines in the hub airports in Java island Indonesia both simultaneously and partially.*

RESEARCH METHOD

This research analyzes more deeply the research variables to be studied, namely the influence of relationship marketing and service quality on price fairness. Thus, this research is descriptive verificative. In this research, the target population is all the passengers of domestic scheduled full service airlines in hub airports in Java island, namely Soekarno-Hatta Airport Jakarta and Juanda Airport Surabaya. The sampling method used here is probability sampling method with proportionate stratified random sampling technique, that is a sampling technique which gives the same opportunity for each element or population member to be chosen as the sample or random sampling and the population members or elements are not homogenous and proporsionally stratified. In this research, the airline passengers have been stratified based on the location (site) of airport, Soekarno-Hatta Airport Jakarta and Juanda Airport Surabaya. Determining the number of samples in this research refers to (Hair Jr., Joseph F., Rolph E Anderson., Ronald L Tatham., 1995), i.e. the samples numbering as many as 200 passengers of domestic scheduled full service airlines spread proposionally; 150 in Soekarno-Hatta Airport Jakarta and 50 in Juanda Airport Surabaya. Study done by (Oly Ndubisi, 2007), (Gilbert & Wong, 2003), and (Martín-Consuegra, Molina, & Esteban, 2007) adopted to measurement of research variables. Questionnaires distribute directly to respondents in the boarding lounge of Soekarno Hatta Airport and Juanda Airport. Filling out the questionnaire is performed in front of the researcher/surveyor. The number of surveyors is planned to be three personnels in each airport. Every answer for each question is given in the format of assessment based on the ordinal scale with five levels of assessment or likert scale, which is used to measure the attitude, opinion, and perception of someone or a group of people toward the research variables. Multivariate analysis technique is used to verify the results of study related to hypothetical testings.

RESULT

The validity test for measurement model is carried out to find the correlation between indicators and their construct. The validity test for measurement model in this study refers to the value of loading factor resulted from standardized regression weight compared to the cut-off value. The instrument is considered as valid if the value of loading factor is > 0.5 (Monroe, K., & Krishnan, 1997). From the calculation of CFA, the value of loading factor of all indicators either the variable of relationship marketing, service quality or price fairness is more than 0.5, so it can be concluded that all the indicators have been valid to reflect the latent variables.

The reliability test for measurement model in SEM is carried out by calculating the value of construct reliability (CR) and variance extracted (VE) from the value of standardized loading

factors and error variances. The results of each variable is as follows: for relationship marketing the value of CR is 0.94 and VE is 0.51, for service quality CR is 0.97 and VE is 0.54, for price fairness CR is 0.84. These results show that the value of Construct Reliability (CR) is ≥ 0.70 and the value of Variance Extracted (VE) is ≥ 0.50. This indicates that all the variables in this study are reliable.

Goodness of Fit Statistics is the assessment to the whole index value that can be used as the guidance for assessing whether the model that has been designed is said to have conformity between theoretical research model and the empirical research data. SEM does not have one best statistical test to explain the predicting power of a model so that some index criteria are needed to assess the conformity of that model. The whole indexes will be summarized in a table together with their cut-off value. Based on the calculation of model conformity, those which do not fulfill the requirements of model conformity are the value of Chi-Square (X^2) with df = 113 and Sig. Probability, whereas the other indexes have been in good criteria, namely NFI = 0.94, NNFI = 0.92, CFI = 0.93, IFI = 0.93, RFI = 0.91 dan PNFI = 0.91. This study uses the sample of 200 passengers so that the unworthiness of the values of Chi-Square (X^2) and Sig. Probability still can be considered valid because the other index criteria which are tested have fulfilled the requirements of model conformity.

From the structural model, relationship marketing and service quality simultaneously and significantly influence the price fairness. The value of F_{cal} is 98.5 > F_{table} (3.042), then the research hypothesis is accepted and significant. The value of R-square 0.50 means the performance of relationship marketing and service quality contribute 50% of the influence on price fairness and the rest 50% is by other factors out of the model. The estimated path coefficient and statistical test of relationship marketing variable toward price fairness is 0.44 with a positive direction. In partial, the hypothesis is accepted, indicated by the value of $t_{statistic}$ 4.89 > 1.96 (level of significance 5%) meaning that the test result is significant. The result of partial test toward the influence of service quality variable on price fairness is 0.33 with a positive direction. This hypothesis is partially accepted, indicated by the value of $t_{statistic}$ 3.72 > 1.96 (level of significance 5%) meaning that the test result is significant.

DISCUSSION

Overall, the result of this research shows that the hypothesis disposition is accepted. Relationship marketing has a more dominant influence rather than service quality on price fairness. This study is the development of the theory proposed by (Kotler, Philip & Armstrong, 2012) that relationship marketing creates a stronger bond with the customers, raising consumers' belief and acceptance that the efforts incurred are equal with what they receive so

that they feel the price being offered is fair. This study supports the the theoretical study done to create a research model by making a constellation between the concept of relationship marketing according to (Oly Ndubisi, 2007) and the concept of price fairness according to (Martín-Consuegra et al., 2007). This is proved with the acceptance of the hypothesis of relationship marketing influence on price fairness and the hypothesis of service quality on the price fairness of domestic scheduled full service flight in the hub airports in Java island.

CONCLUSION

Simultaneously, relationship marketing and service quality have positive and significant influence on price fairness. Relationship marketing has a more dominant influence rather than service quality on price fairness. This study has some limitations so that further research can be done to develop the research model, namely: 1) Price fairness is not only influenced by relationship marketing and service quality but also other factors, thus further research needs to be done. The other factors include product excellence, chracteristics of customer, and customer value as exogenous variables; 2) Expanding the study on its analysis unit toward the international scheduled flights throughout Indonesia so that it can give wider contributions to studying the price fairness of airline services both full service and low cost carrier in Indonesia and other countries.

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