

CHAPTER I

INTRODUCTION

1.1 Background of Research

Nowadays, business world faces big challenges. Tight competition has led the market into a blood-coloured sea, where business compete with each other to win the market. As the result, a company should make a differentiation to survive in this situation. This differentiation is intended to reach the targeted customer. As the final result, the targeted customer needs to be converted into customer loyalty to ensure its survival.

The final objective in marketing is customer loyalty. However, there are many aspects to gain it. This is explained in the previous research, where customer satisfaction leads to brand loyalty. Satisfied consumer will more likely to come back to a particular brand (Cronin, Brady, & Hult, 2000). This concept is related to perceived value, which focuses on the best service they ever could. In the airline context, some may call it as business class or first class. But also, higher quality means higher price perception.

Regarding to the explanations above, higher quality and higher price perception will be a better solution. However, there were only few researches about this topic. Therefore, the research about the influence of perceived value and price perception on customer loyalty of premium airline in domestic area is necessary.

When discussing about price and quality, consumers are becoming more and more aware that low-price do not make sure customer will buy certain product. Higher quality combined with higher price perception is becoming a trend. These two business aspects offer a better solution, eventhough customers often need to sacrifice more to buy product or service (McGowan & Sternquist, 1998).

In the previous research, perceived value has become an important factor because the value and quality itself cannot exactly be measured (Yang et al., 2014). Consequently, perceived value plays an important role in developing consumer's decision making to choose which particular brands should they be loyal with (Anuwitchanont, 2011). Moreover, a positive customer perceived value will increase the willingness of the customer to sacrifice, for both monetary or non monetary, more than a negative customer perceived value (Cronin, Brady, & Hult, 2000). Therefore, from the previous theories, it can be concluded that the better the value offered by a company, the more the customer will sacrifice. In the airline context, especially in the domestic area, some companies offers a better service compared to other normal classes. This phenomenon will be examined to find out to what extent that the previous theory had already found. This research, then, will give more information regarding the scope of perceived value concept.

In return of higher quality offered, airline companies will ask for a premium price. Premium price is the sum of a customer willing to pay for the product that is higher compared to the sum that a customer willing to pay for a relevant product (Aaker, 1996). Premium price is considered as one of the most

important marketing theory, since many companies implement this strategy, but there is still relatively small number of research that discusses this matter (Anselmsson, Bondesson, & Johansson, 2014). This applies to airline industry as well as other markets. In this research, what is meant by premium price is categorized as price perception. Therefore, unlike other research that focuses on low price perception, the researcher will examine what is the consumer's perception on premium price.

However, previous research suggested that developing customer loyalty should be followed by brand affect and brand trust (Chaudhuri & Holbrook, 2001; Anuwitchanont, 2011). As for the perceived value and price perception will remain as independent variable, brand trust and brand affect will support to develop customer loyalty. Previous research also suggested that future research should develop the role of price perception as a moderating variable. Therefore, price perception will be affecting the relationship between brand trust to customer loyalty and brand affect to customer loyalty (Anuwitchanont, 2011). Also, brand trust and brand affect will act as mediating variable in this research.

Brand trust can be defined as the willingness of the average consumer to rely on the ability of the brand to perform its stated functions (Chaudhuri & Holbrook, 2001). Brand trust will significantly increase when affected by perceived value (Anuwitchanont, 2011), and will significantly affect customer loyalty (Gecti & Zengin, 2013). In the airline context, when discussing punctuality, passengers will prefer a carrier that provides fewer, shorter, and more equal delay times (Bishop, Rupp, & Zheng, 2011). Therefore, it describes that

loyalty is guided or motivated by favorable and positive intention toward consumer's trust.

Brand affect is defined as a brand's potential to elicit a positive emotional response in the average consumer as a result of its use (Chaudhuri & Holbrook, 2001). Simply put, if the customers give a negative emotional response when recalled a particular brand name, it means the company has a low brand affect. In the case of airline industry, emotional response is considered as the most important matter because positive emotional response could lead to customer loyalty (Anuwitthanont, 2011). For example, by having a delay or a unpleasant service given by airline company, customer will more likely to be exhausted or angry. This matter will definitely give influence on the consumer's preference (Bishop, Rupp, & Zheng, 2011).

In conclusion, this research extends the knowledge of the previous research by assessing the influence of perceived value on brand trust and brand affect, the influence of brand trust and brand affect on customer loyalty, and the moderating effect of price perception. This research will examine the high price perception (premium price), on customer loyalty in the airline context. Thus, the moderating effect of price perception will also be examined in the association between brand trust and brand affect. The finding of this research will encourage the airline marketing industry to be more advanced and give the executives of airline companies to have wider perspective about marketing in terms of creating more customer loyalty through the effect of perceived value and high price perception.

1.2 Problem Formulations

Based on the research background above, the problem formulations of the research are as follows:

1. Does perceived value have a positive influence on brand affect?
2. Does perceived value have a positive influence on brand trust?
3. Does brand trust have a positive influence on customer loyalty?
4. Does brand affect have a positive influence on customer loyalty?
5. Does price perception have a positive influence as the moderator between brand affect and customer loyalty?
6. Does price perception have a positive influence as the moderator between brand trust and customer loyalty?

1.3 Research Limitations

1. This research only takes Indonesian citizen who has experienced using domestic flight as respondents.
2. This research only focuses on variables that affect customer loyalty, specifically perceived value and price perception as the independent variable.

1.4 Research Objectives

Based on the research problems that have been mentioned above, therefore the research objectives are as follow:

1. To examine the influence of perceived value on brand affect.
2. To examine the influence of perceived value on brand trust.
3. To examine the influence of brand trust on customer loyalty.
4. To examine the influence of brand affect on customer loyalty.
5. To investigate the moderating influence of price perception on the relationship between brand affect and customer loyalty.
6. To investigate the moderating influence of price perception on the relationship between brand trust and customer loyalty.

1.5 Research Contributions

In this research, there will be benefits that wanted to be achieved:

Theoretical Benefit

This research will give a conceptual framework about the factors that influence customer loyalty of premium airline industry on domestic flight. Beside that, it will give contributions to a further research and add more literature in marketing subject.

Practical Benefit

This research will help marketing manager to make decisions and give a broader view regarding perceived value and price perception toward customer loyalty, especially in the premium airline industry on domestic flight.

1.6 Systematical Writing

The systematical writing consists of five chapters. The explanations of each chapter will be as follow:

Chapter I: INTRODUCTION

This chapter discusses about the background of the research, the formulation of the problems, the limitation of the research, the purpose of the research, the contribution of research, and systematical writing.

Chapter II: LITERATURE REVIEW

This chapter exhibits the theoretical foundation of the variables that is included in this research. In addition, there are researches hypotheses and the framework of the research provided.

Chapter III: RESEARCH METHOD

This chapter explains the models and methods used in this research, population and sample, sampling technique, the variables of the research and the testing methods used.

Chapter IV: DATA ANALYSIS AND DISCUSSION

This chapter shows data analysis and discussion of the results obtained from statistical calculations using theoretical concepts. The interpretation of research is based on theories that have already been existed.

Chapter V: CONCLUSIONS AND RECOMMENDATIONS

This chapter contains the conclusions on the results of the analysis and calculation of data obtained from the research. In addition, this chapter also describes the limitations of the research conducted, which can be used for future research.

