

THE INFLUENCING FACTORS OF CUSTOMER RETENTION IN AIRLINE INDUSTRY: A CASE OF DRUKAIR ROYAL BHUTAN AIRLINES

*Melam Zangmo, Wasin Liampreecha and Sujinda Chemsripong
Faculty of Business, Economics and Communications
Naresuan University, Phitsanulok, Thailand

ABSTRACT

The main objective of this study was to examine the influencing factor of customer retention in the airline industry in context of Bhutan airlines, specifically Drukair Royal Bhutan Airlines (Drukair). To achieve this objective, the research was guided by three hypotheses. Using fully structured questionnaires, data was collected from randomly selected passengers of international flights of Drukair at Paro International Airport. 382 samples were valid and used for analyzing the data. A statistical package for social sciences (SPSS, 17 versions) was used to analyze the data. Regression analysis was performed to test the hypothesis. The result indicated that customer perceived service quality, customer satisfaction and customer loyalty has a positive impact on customer retention. It is suggested that Drukair and other airline companies to consider those factors in retaining their existing customers.

Keywords: 1) Service quality 2) Customer 3) satisfaction 4) Customer loyalty 5) Airline 6) Drukair, Bhutan

1. Introduction

Customer retention is about increasing the sales by endlessly satisfy and serve the customers so they will keep coming back (Farquhar, 2005). Most researchers agree on the importance of retention as a key driver of a firm's profitability since retaining cost is less than acquiring new customers, and it is repeatedly treated as a critical component in customer profitability models (Gupta et al., 2006). Furthermore, customer retention is increasingly being seen as an important managerial issue, especially in the context of saturated market or lower growth of the number of new customers (Ahmad & Buttle, 2002).

Background of Drukair Royal Bhutan Airlines

The airline industry in Bhutan was established by the Royal decree in 1981 and the Bhutan's national carrier Drukair Royal Bhutan Airlines began operations in

1983. Over the last three decades, Drukair was the only organization in the airline industry of Bhutan. However, government has been encouraging to have competitor and Bhutan Airlines (Tashi Air) started operating for domestic sector initially and started operating in international sectors in late October 2013. Drukair is a Government of Bhutan owned airline run by the government's Investment Wing, Druk Holding and Investments. The first link was to Kolkata in India and subsequently followed by six destinations in South Asia, including Thailand.

The main objective of this study was to examine the influencing factor of customer retention in airline industry specifically to fulfill below three objectives:

1. To examine the effect of customer perceived service quality on customer retention
2. To examine the effect of customer satisfaction on customer retention

3. To examine the effect of customer loyalty on customer retention

2. Literature review and hypotheses

Customer retention

Customer retention is about increasing the sales by endlessly satisfy and serve the customers so they will keep coming back (Farquhar, 2005). According to Shukla (2013), there are several important factors besides five factors of Porter's five force model that help airline companies to survive in a strict competition. This includes customer satisfaction, customer loyalty and customer retention (Shukla, 2013). In addition, service quality is added for this study as service quality plays vital role in satisfying the customers. Further it is shown in the result of Shukla (2013) that several factor that affect customer's satisfaction which leads to repetition and recommendations to purchase. Satisfaction occurs based on how consumers perceived that they are treated. In order to ensure the customer retention to be successful, the quality of the service needs to be able to satisfy or go beyond the customers' expectations. Moreover, in this global world, satisfying the customer is not enough and it is crucial to delight the customers.

Effect of customer perceived service quality on customer retention

According to Geraldine & U (2013), measuring of service quality allows for comparison before and after changes, for the location of quality related problems and for the establishment of clear standards for service delivery. The starting point in developing quality in services is analysis and measurement, service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Geraldine & U, 2013). However, companies can benefit from the fact of knowing how customers perceive their service quality and knowing

the way of how to measure service quality (Angelova & Zekiri, 2011).

Furthermore, in many studies like Boulding et al. (1993); Zeithaml et al. (1996) have also found a direct positive link between service quality perceptions and customer behavioral intentions like repurchasing or keeping long term relationship with the firm. Therefore, Service provider must be able to provide service value to the customers and according to Zeithaml (1988), service value can be grouped into four consumer definitions value i.e. (1) Value is low price, (2) Value is whatever I want in a product, (3) Value is equality I get for the price I pay, (4) Value is what I get for what I give. Every single customer expects what they get to be equaled to what they gave. Firm should find products for good customers rather than good customers for product (Storbacka & Lehtinen, 2001). Hence, airlines should find service for good passengers rather than good passengers for the service and will help in customer retention.

From the service marketing point of view, the way to retain customers is to improve customer service quality and satisfaction (Ahmad & Buttle, 2002). In the findings of (Ennew & Binks, 1996) indicated that service quality as an important factor which should contribute to an organization's ability to retain loyal customers and thus contribute to improve organizational performance. In addition, Ennew & Binks (1996) also found retention is influenced by service quality in terms of both functional and technical.

Again, Sharma & Patterson (1999) observed that, greater the quality is perceived, the stronger is the relationship commitment. Many studies indicated that the more satisfied customers are, the more they tend to remain loyal to the firm (Fornell, 1992) retaining the customers. Saeed, Grover, & Yujong (2005) concluded that post sales services are the important drivers for customer retentions.

It is important for product/service provider to emphasis on the quality of product and service, and successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship or longer relationships (Saeed et al., 2005). In this study, service quality is comprised of the five dimensions of SERVQUAL i.e. tangibles, reliability, responsiveness, assurance and empathy adopted from Parasuraman et al.(1988).

H1 – therefore, it is hypothesis that customer perceived service quality has a positive effect on customer retention.

Effect of customer satisfaction on customer retention

Today’s customers are very well educated and more demanding in the products and the services they require as they have exposure to a variety of information, more familiar with the present trends in technology. Shukla (2013) stated that in today’s world, internet allows customers to easily make a comparison through information and price transparency and switch to other airline service. So it is very important to satisfy customers nowadays. Oliver (1981) defined satisfaction as “a person’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations”. According to Wiele, Boselie & Hesselink (2002), satisfaction is a positive, affective state resulting from the appraisal of all aspects of a party’s working relationship with another. Customer satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive regarding the fulfilment of some needs, goals or desire (Hansemark & Albinsson, 2004).

It is defined that customer retention as the future propensity of a customer to stay with the service provider (Ranaweera

& Prabhu, 2003) and found that satisfaction have strong positive effects on customer retention. It is considered that higher the satisfaction, higher is the level of retention and almost every firm are focusing on managing and increasing customer satisfaction (Ranaweera & Prabhu, 2003). It was indicated in the findings of (Shin & Elliott, 1998) that customer satisfaction is also an essential performance metric and it creates customer retention which in turn increases company’s profitability.

Furthermore, Lin & Wu (2011) stated that there is statistically significant relationship between quality commitment, trust and satisfaction and customer retention and future use of product, as retention is influenced by future use of product. Ranaweera & Prabhu (2003) have found customer satisfaction have stronger effect on customer retention comparing with the trust. Therefore, customer satisfaction serves as an exit barrier, helping a firm to retain its customers (Fornell, 1992).

H2 – therefore, it is hypothesis that customer satisfaction has a positive effect on customer retention.

Effect of customer loyalty on customer retention

Cronin & Taylor (1992) identified that customer loyalty is customers’ attitudinal component represents notions like: repurchase intention or purchasing additional products or services from the same company, willingness of recommending the company to others, demonstration of such commitment to the company by exhibiting a resistance to switching to another competitor. It can be concluded that customer loyalty expresses an intended behavior related to the product or service or to the company (Akbar & Parvez, 2009).

It was demonstrated in the study of (East, Hammond, Harris, & Lomax, 2000) that customer loyalty and customer retention are positively related to each other. Additionally, it was examined that

loyalty program with monetary compensation is steps toward great customer retention (Verhoef, 2003). Verhoef (2003) further stated that there is enough evidence in previous literature that emotional commitment and loyalty program of giving financial incentives have positive impacts on customer retention.

A company's ability to attract and retain new customers, is not only related to its products or services, but strongly related to the way it services its existing customers and the reputation it creates in the market particularly to the customers (Verhoef, 2003). Loyalty programs that base rewards on cumulative purchasing are explicit attempt to enhance retention and such programs encourage repeat buying and thereby improving retention rates (Lewis, 2004). In the study of (Tsao, Pitt, & Campbell, 2009), findings suggested

that when the promotion effects among brands are similar, the retention rate varies depending on the level of loyalty. It means service provider should have effective loyalty programs to retain their customers.

Rust & Zahorik (1993) found that there is a significant relationship between retention and loyalty. If a company have loyal customers, retention will be more successful and it indicates that they are related each other. Similarly, Bolton, Kannan, & Bramlett (2000) also found that customer loyalty has significant effect on retention. In the findings of (Shukla, 2013) indicated that customer satisfaction and customer loyalty effects customer retention.

H3 – therefore, it is hypothesis that customer loyalty has a positive effect on customer retention.

Theoretical framework

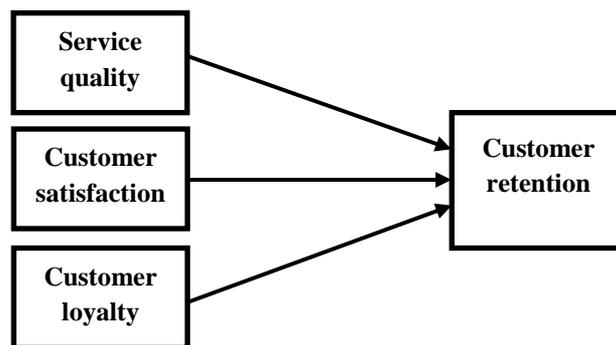


Figure 1: Figure 1 shows the conceptual framework of this study which is drawn from the literature review related to the study. It indicates a clearer picture of the factors influencing customer retention in the airline industry.

3. Research Methodology

The sample size calculated was 384 which were rounded up to 400 to allow some statistical error. Data was collected by distributing self-administered questionnaire to randomly selected passengers who were waiting for their flights at departure lounge at Paro International Airport. Since 5 points Likert scales are widely used, especially in business context, this study also used same scale.

To validate the questionnaire, a pilot test was carried out on a convenience

sample of thirty passengers of Drukair and collected data was used to refine the survey instrument. Pilot study provides opportunity to make minor changes in order to ensure that respondents fully understand the questionnaires. The reliability of data was tested by using Cronbach's alpha value in which the alpha value was 0.9, much higher than the minimum reliable level of 0.6 and it was stated that Cronbach's alpha coefficient over 0.6 is adequate for basic research (Hair, Black, Babin, Anderson, & Tatham, 2006).

Although, author distributed 400 questionnaires, only 382 were valid which is 95.5% of the total questionnaire and were used for analysis. A statistical package for social sciences (SPSS, 17 versions) was used for analyzing the data.

Items to measure factors were adopted from previous studies (Archana & Subha, 2012; Elliott & Roach, 1993; Gerpott, Rams, & Schindler, 2001; Keaveney, 1995; Namukasa, 2013; Pakdil & Aydın, 2007; Park, Robertson, & Wu, 2004) and author added one item to measure customer retention i.e. I would continue traveling by this airline even if they charge higher price than other airline company. Details of the items used and adopted from are shown in appendix- I.

4. Results

The demographic result indicated that 54.5% of respondents were female and 45.5% were male. Of the 382 respondents, 67% were foreigners and 33% were Bhutanese. The majority of the foreigner's income levels were between \$ 1,000 - \$ 2,999 with 22.3%, Bhutanese income levels were between Nu 10,000 - Nu 29,999 covering 14.4%.

The regression analysis was performed to test the hypotheses and result indicated that customer perceived service quality has positive and insignificant effect on customer retention; customer satisfaction has a positive and significant effect on customer retention; and customer loyalty has a positive and significant effect on customer retention as shown in table 1.

Table 1: Multiple regression (Unstandardized Coefficients B)

Independent variables	B
Service quality	0.134
Customer satisfaction	0.189*
Customer loyalty	0.192**
R square	0.218

*Level of significant at $p < 0.05$; **Level of Significant at $p < 0.01$;
Dependent variable: customer retention

In brief, result identified that airline industry must emphasize on improving service quality to satisfy customer in building customer loyalty to retain their customers. It indicates that all variables i.e. customer perceived service quality, customer satisfaction and customer loyalty plays an important role in retaining the customers in airline industry. However, service quality influences customer retention positively but not directly. Relationships among independent variables were tested and found they are positively and significantly correlated/ influences each other. Though it was not tested in this study, it can be concluded that service quality influences customer retention positively and indirectly. Therefore, all variables i.e. service quality, customer satisfaction and

customer loyalty plays important role directly or indirectly in retaining the customers in airline industry. Cronin et al., (2000) found that service quality have positive indirect influence on behavioral intentions such as customer retention and word of mouth.

It is recommended that Drukair or airline companies should consider implementing various strategies for improving service quality to satisfy customer in building loyalty to retain their customers.

It can therefore be concluded that service quality, customer satisfaction and customer loyalty has a positive impact on customer retention. This finding is supported in previous studies like (Anderson & Sullivan, 1993; Bolton et al., 2000; Ennew & Binks, 1996; Lin & Wu, 2011; Ranaweera &

Neely, 2003; Rust & Zahorik, 1993; Saeed et al., 2005; Verhoef, 2003). It implies, when the perceived service quality, level of passenger satisfaction and loyalty are high, there will be high retention level. In other words, higher the perceived service quality, greater the satisfaction and loyalty

level which increase the retention level and vice versa. It is crucial for airline companies to emphasis on service quality to satisfy the passengers to retain them. Table 2 indicates analysis on hypotheses whether it is accepted or rejected based on the result.

Table 2: Summary of hypotheses analysis

Hypotheses	Decision
H1- Customer perceived service quality has a positive effect on customer retention	Accepted
H2 – Customer satisfaction has a positive effect on customer retention	Accepted
H3 – Customer loyalty has a positive effect on customer retention	Accepted

5. Conclusions

This study demonstrated that beside airfare charged on customers; service quality, customer satisfaction and customer loyalty also plays an important role in retaining existing customers in airline industry specifically in context of Bhutan. The drawback of this study is that it is limited to one airline i.e. Drukair due to time constraints and also another airline

(Tashi Air Pvt Ltd) being very new in the industry. Therefore, new airline is not included in this study. Due to limitations, findings of this study may not be generalizable. However, to some extent, it can be applied to other airline companies as items to measure those factors were adopted from previous studies which were carried out in different countries.

6. References

- Ahmad, R., & Buttle, F. (2002). Customer retention management: a reflection of theory and practice. *Marketing intelligence & planning*, 20(3), 149-161.
- Akbar, M. M., & Parvez, N. (2009). Impact of service quality, trust, and customer satisfaction on customers loyalty. *ABAC Journal*, 29(1), 24-38.
- Anderson, E. W., & Sullivan, M. W. (1993). The antecedents and consequences of customer satisfaction from firms. *Marketing Science*, 12(2), 125-143.
- Angelova, B., & Zekiri, J. (2011). Measuring Customer Satisfaction with Service Quality Using American Customer Satisfaction Model (ACSI Model). *International Journal of Academic Research in Business and Social Sciences*, 1(3), 232-258.
- Archana, R., & Subha, M. V. (2012). A study on service quality and passenger satisfaction on Indian Airlines. *International Journal of Multidisciplinary Research*, 2(2), 50-63.
- Bolton, R. N., Kannan, R. K., & Bramlett, M. D. (2000). Implications of Loyalty Program Membership and Service Experiences for Customer Retention and Value. *Journal of the Academy of Marketing Science*, 28(1), 95.
- Boulding, W., Kalra, A., Staelin, R., & Zeithaml, V. A. (1993). A dynamic process model of service quality: from expectations to behavioral intentions. *Journal of Marketing research*, Vol. XXX, 7-27.

- Cronin, J. J. J., Brady, M. K., & Hult, G. T. M. (2000). Assessing the Effects of Quality, Value, and Customer Satisfaction on Consumer Behavioral Intentions in Service Environments. *Journal of Retailing*, 76(2), 193-218.
- Cronin, J. J. J., & Taylor, S. A. (1992). Measuring Service Quality: A Reexamination and Extension. *Journal of Marketing*, 56(3), 55-68.
- East, R., Hammond, K., Harris, P., & Lomax, W. (2000). First-Store Loyalty and Retention. *Journal of Marketing Management*, 16, 307-325.
- Elliott, K. M., & Roach, D. W. (1993). Service quality in the airline industry: are carriers getting an unbiased evaluation from consumers? *Journal of Professional Services Marketing*, Vol. 9, 71-82.
- Ennew, C. T., & Binks, M. R. (1996). The impact of service quality and service characteristics on customer retention: Small businesses and their banks in the UK. *British Journal of Management*, 7(3), 219-230.
- Farquhar, J. D. (2005). 'Who Stole My Customer?? Winning Strategies for Creating and Sustaining Customer Loyalty'/Pearson Professional Education, 2004. *Journal of Financial Services Marketing*, 9(4), 390-391.
- Fornell, C. (1992). A National Customer Satisfaction Barometer: The Swedish Experience. *Journal of Marketing*, 56, 6-12.
- Geraldine, O., & U, C. D. (2013). Effects of airline service quality on airline image and passengers' loyalty: Findings from Arik Air Nigeria passengers. *Journal of Hospitality and Management Tourism*, 4(2), 19-28. doi: 10.5897/JHMT2013.0089
- Gerpott, T. J., Rams, W., & Schindler, A. (2001). Customer retention, loyalty, and satisfaction in the German mobile cellular telecommunications market. *Telecommunications Policy*, 25, 249-269.
- Gupta, S., Hanssens, D., Hardie, B., Kahn, W., Kumar, V., Lin, N., . . . Sriram, S. (2006). Modeling Customer Lifetime Value. *Journal of Service Research*, 9(2), 139-155. doi: DOI: 10.1177/1094670506293810
- Hair, J., Black, W. C., Babin, B. J., Anderson, R. E., & Tatham, R. (2006). *Multivariate Data Analysis*, Pearson Education, New York, NY.
- Hansemark, O. C., & Albinsson, M. (2004). Customer satisfaction and retention: the experiences of individual employees. *Managing Service Quality*, 14(1), 40-57. doi: www.emeraldinsight.com/researchregister
- Keaveney, S. M. (1995). Customer switching behavior in service industries: An exploratory study. *Journal of Marketing*, 59(2), 71.
- Lewis, M. (2004). The Influence of Loyalty Programs and Short-Term Promotions on Customer retention. *Journal of Marketing research*, XII, 281-292.
- Lin, J.-S. C., & Wu, C.-Y. (2011). The role of expected future use in relationship-based service retention. *Managing Service Quality*, 21(5), 535-551. doi: 10.1108/09604521111159816
- Namukasa, J. (2013). The influence of airline service quality on passenger satisfaction and loyalty The case of Uganda airline industry. *TQM Journal*, 25(5), 520-532. doi: 10.1108/tqm-11-2012-0092
- Oliver, R. L. (1981). Measurement and Evaluation of Satisfaction Processes in Retail Settings. *Journal of Retailing*, 57(3), 25.
- Pakdil, F., & Aydın, Ö. (2007). Expectations and perceptions in airline services: An analysis using weighted SERVQUAL scores. *Journal of Air Transport Management*, 13(4), 229-237. doi: http://dx.doi.org/10.1016/j.jairtraman.2007.04.001

- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality. *Journal of Retailing*, 64(1), 12-40.
- Park, J.-W., Robertson, R., & Wu, C.-L. (2004). The effect of airline service quality on passengers' behavioural intentions: a Korean case study. *Journal of Air Transport Management*, 10(6), 435-439. doi: <http://dx.doi.org/10.1016/j.jairtraman.2004.06.001>
- Ranaweera, C., & Neely, A. (2003). Some moderating effects on the service quality-customer retention link. *International Journal of Operations & Production Management*, 23(2), 230-248.
- Ranaweera, C., & Prabhu, J. (2003). On the relative importance of customer satisfaction and trust as determinants of customer retention and positive word of mouth. *Journal of Targeting, Measurement & Analysis for Marketing*, 12(1), 82-90.
- Rust, R. T., & Zahorik, A. J. (1993). Customer satisfaction, customer retention, and market share. *Journal of Retailing*, 69(2), 193-215.
- Saeed, K. A., Grover, V., & Yujong, H. (2005). The Relationship of E-Commerce Competence to Customer Value and Firm Performance: An Empirical Investigation. *Journal of Management Information Systems*, 22(1), 223-256.
- Sharma, N., & Patterson, P. G. (1999). A model of relationship commitment among professional services. *Journal of Services Marketing*, 13(2), 151-170.
- Shin, D., & Elliott, K. (1998). Assessing the impact of customer satisfaction on customer retention. *The Journal of Marketing Management*, 8(2), 95-102.
- Shukla, L. (2013). A Case Study on Customer Acquisition and Retention on the Airline Service Industry. *OSR Journal of Business and Management (IOSR-JBM)*, 9(4), PP 15-33. doi: www.iosrjournals.org
- Storbacka, K., & Lehtinen, J. R. (2001). *Customer Relationship Management*. McGraw-Hill Education.
- Tsao, H.-Y., Pitt, P.-C., & Campbell, C. (2009). The impact of loyalty and promotion effects on retention rate. *Journal of the Operational Research Society*, 60, 646-651.
- Verhoef, P. C. (2003). Understanding the Effect of Customer Relationship Management Efforts on Customer Retention and Customer Share Development. *Journal of Marketing*, 67(4), 30-45.
- Wiele, T. v. d., Boselie, P., & Hesselink, M. (2002). Empirical evidence for the relationship between customer satisfaction and business performance. *Managing Service Quality*, 12(3), 184.
- Zeithaml, V. A. (1988). Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence. *Journal of Marketing*, 52(3), 2-22.
- Zeithaml, V. A., Berry, L. L., & Parasuraman, A. (1996). The Behavioral Consequences of Service Quality. *Journal of Marketing*, 60(2), 31-46.

7. Appendix

Items used and adopted from previous research to measure the variables

Factors	Items	Adapted from
Tangibles	<ul style="list-style-type: none"> -The aircraft has clean and comfortable seats -Employees of this airline appear neat and tidy -The airline provides quality food and beverage -Cleanliness of toilets -This airline have in-flight entertainment service (newspapers and magazines) 	Park et al. (2004); Pakdil & Aydın (2007); Archana & Subha(2012); Namukasa (2013)
Reliability	<ul style="list-style-type: none"> -Convenient flight schedule -On-time performance -Safety -Clean and comfortable interior/ seats -Updating airline website 	Pakdil & Aydın (2007); Park et al. (2004); Namukasa (2013)
Responsiveness	<ul style="list-style-type: none"> -Handling of delayed flight -Efficient check in / baggage handling services -Employee's willingness to help -Employees' speed handling request/ complaint -Quality of the reservation services 	Archana & Subha(2012); Park et al. (2004); Pakdil & Aydın (2007)
Assurance	<ul style="list-style-type: none"> -Image of the airline company -Knowledge of employee -Language skills of employee 	Elliott & Roach (1993); Namukasa (2013); Park et al. (2004)
Empathy	<ul style="list-style-type: none"> -Employees' behavior to delayed passenger -Individual attention to passengers -Understanding of passengers' specific needs -Courtesy of employees 	Pakdil & Aydın (2007); Park et al. (2004)
Customer satisfaction	<ul style="list-style-type: none"> -My choice to use this airline was wise one -I think that I did the right thing when I decided to use this airline -The in-flight services that this airline offers are worth what I pay for -This airline values customer's comments 	Park et al. (2004); Namukasa (2013)
Customer loyalty	<ul style="list-style-type: none"> -Would like to use this airline again in the future -I would recommend this airline to other people -If I asked, I would say good things about this airline 	Park et al. (2004)
Customer retention	<ul style="list-style-type: none"> -I would continue my relationship with his airline as far as possible -I would terminate my relationship with this airline as soon as possible -I would continue traveling by this airline even if they charge higher price than other airline company 	Gerpott et al. (2001); Keaveney (1995); Rust & Zahorik (1993) Author