Role of Price in Low Cost Carrier

K. Deeppa[*1] and R. Ganapathi[2]

[1] *Research Scholar, AMET Business School, East Coast Road, Kanathur, Chennai- 603112, E-mail: k.deeppa@gmail.com*
[2]*Assistant Professor, Alagappa University, Karaikudi, Tamil Nadu- 630003, E-mail: meenaramganapathi@gmail.com[2]*
[*] *corresponding author*

Abstract: In the recent years, major changes has been witnessed by the aviation sector especially after the appearance of the low cost carriers. The unique approach of the new comers had been a vital reason for the resurgence of the sector, particularly in India. In this paper analyses is done to understand the role of price in the low-cost carriers from the perspective of a customer. The research is based on the study of a total of 1200 customers in Delhi airport(T3 terminal).Studies in the past have considered price as an important component for the growth of the low cost airline sector. However, the methodology used is ANOVA to examine the difference between the socio economic background of customers and their perception about price of low cost carriers.

Keywords: Low cost carriers, Price, India, ANOVA.

INTRODUCTION

Air transport is one of the most popular areas of study in the field of industrial economics due to its role in regional development and the importance it has acquired within the framework of globalization (Goetz, 2002).According to Goetz and Vowles (2009), in recent decades the air transport situation has taken a radical turn due to the sector's liberalization process, the development of information and communication technologies (ICTs), new demand needs and, ultimately, the emergence of low-cost carriers (LCCs). Low cost carriers often offer a simpler fare scheme, such as charging one way tickets half that of round-trips. Typically fares increase as the plane fills up, which rewards early reservations. Often, the low-cost carriers fly to smaller, less congested secondary airports and / or fly to airports in off-peak hours to avoid air traffic delays and taking advantage of lower landing fees. The airlines tend to offload, service and re-load the aircraft (turnaround) in shorter time periods, allowing maximum utilization of aircraft (Klophaus et al 2012).

The service price can strongly influence customer perception of service value, service satisfaction (Kim et al 2008). More competitive prices will be a motive source to attract new customers because those customers often rely on the service price to judge the service through its price, while they are no experience to evaluate the service before buying or using it. The value of the money to purchase services is another aspect in the customer satisfaction. According to Porter (1985) value is the amount that customers satisfy to pay for products or services of the firms.

The concept of reasonable price is also applied to judge the customer satisfaction compared to the price of services. Customers are willing to open their wallets to by the services that they feel reasonable price. Airlines in general and low cost carriers in particular do not ignore this principle in building the fare frame to meet the different demands of customers, from that they launch out extended fare ranges compatible with the provided service, the flying time, or the booking season.

REVIEW OF LITERATURE

The success of the low-cost model is based on a fragile balance between fare levels, load factors and operating costs. The structure of revenues and the determination of prices are nearly as important as the minimisation of costs in the equation of profits. Indeed, an excellent pricing strategy for perishable assets results in a turnover increase, ceteris paribus, which can be quantified between 2% and 5%, according to Zhao and Zheng's (2000) study. One of the most obvious effects of the liberalization of the airline industry has been the decrease in airfares due to increased competition (Goetz and Vowles, 2009).According to McAfee and te Velde (2006), in the period preceding the flight date, the price trend mainly depends on the trade off between the option of waiting for a potential lower price, and the risk of seats becoming unavailable. In this case, the functional form of the demand curve, together with its adjustment over time, also help to determine a series of minimum prices. Low cost airlines differ primarily from the full service airlines in term of service and above all through price standards (Barrett, 2004). Due to the increasing competition within low cost airlines on the European market branding is becoming more important. Product and service differentiation can be seen as a strategy to stand out from the crowd meaning the direct competitors. Furthermore, building brand recognition in such a competitive environment enables low cost airlines to compete (O'Connell and Williams, 2005).

Piga and Filippi (2002) have analysed the pricing policies of the low-cost business model in comparison with the pricing strategies of the full-cost airlines. Coherent choices seem to be essential in pricing policies as well.Alderighi *et al.* (2004) have pointed out that full-cost airlines tend to decrease fares on routes also operated by low-cost carriers. The influence of the competitive structure on the pricing strategies of low-cost carriers has been less studied, as far as we know. It is clear that LCCs are able to exploit several cost advantages on short-haul routes (Graham and Vowles, 2006; Graham et al., 2006). First, low-cost airlines are able to achieve a high utilization of the plane and its crew. Second, they have lower labour costs due to the weaker role played by the unions. Third, they have a simpler management model. This is attributable to the fact that they focus on point-to-point services, use just one type of plane, operate a single fare-class, and provide no free on-board frills.

From the consumer's perspective, the monetary cost of something is what is given up or sacrificed to obtain a product (Zeithaml, 1988). Thus, in studies on related topics, price has often been conceptualized and defined as a sacrifice (Anderson, Fornell and Lehmann, 1994). There are three components to the

concept of price: objective price, perceived non-monetary price, and sacrifice (Zeithaml, 1988). The objective of monetary price (simply put, the amount of money paid for product) is not equivalent to the perceived price (that is, the price as understood and recorded in the mind of consumer) since consumers do not always know or remember the actual price paid for a product. Instead, they encode the price in a way that it is meaningful to them (Zeithaml, 1988). As to the relationship between price and satisfaction, research has shown that price is one of the determinants of customer satisfaction (Anderson, Fornell, and Lehmann, 1994; Parasuraman, Zeithaml, and Berry, 1994; Zeithaml and Bitner, 2000). When customers were asked about the value of services rendered, they consistently considered the price charged for the service (Anderson, Fornell, and Lehmann, 1994). In those cases in which consumers did not consider price in forming their judgments about the quality of service, it was generally because they lacked a reference price (Zeithaml and Bitner 2000). Ryanair´s strategy focusing on the lowest price could keep the passenger numbers high as well. As it seems and reflecting the assumptions by (Gursoy and Swanger, 2007) all three airlines were able to stay competitive and be particularly prepared for unexpected changes because they found opportunities to 50 improve the strategy which was adopted by competitors or made changes to strengthen the strategy in order to respond to external driving forces.

OBJECTIVES OF THE STUDY

- To study the socio-economic backdrop of the consumers
- To study the consumers perception about price in low cost carriers
- To analyze the relationship between the socio-economic backdrop of the customer and their perception about price of low cost carriers.

HYPOTHESIS OF THE STUDY

- There is no significant difference between gender of customers and their perception about price of low cost carriers
- There is no significant difference between age of customers and their perception about price of low cost carriers
- There is no significant difference between educational qualification of customers and their perception about price of low cost carriers
- There is no significant difference between occupation of customers and their perception about price of low cost carriers
- There is no significant difference between annual income of customers and their perception about price of low cost carriers

RESEARCH METHODOLOGY

Among the distinctive cities in India, Delhi had been selected on purpose for the study. Through random sampling technique 1200 customers were selected. The structured questionnaire is used to collect the primary data. The questionnaire evaluated demographic information collected from all respondents regarding age, gender, marital status, education level, employment status, and income level. In order to create further analysis, researcher have used SPSS to analyze the data that been obtained from the questionnaires. By

using SPSS program, the collected data was processed and analyzed in order to capture and interpret it. The raw data obtained from the questionnaires was keyed in to the program, and analyzed using that particular statistical software program. Descriptive statistics are used to explore the data collected and to summarize and describe those data. Descriptive statistic may be particularly useful if one just make some general observation about the data collected.

ANALYSIS AND INTERPRETATION

This section analyzes the results arrived through the data. The socio economic profile of the customers are seen in Table 1.

Table 1
Socio-economic profile of customers of low cost carriers

Profile	Number of Customers	Percentage
Gender		
Male	698	58.17
Female	502	41.83
Age		
below 20 years	56	4.67
between 21 – 30 years	279	23.25
between 31 – 40 years	362	30.17
between 41 – 50 years	311	25.92
between 51 – 60 years	118	9.83
above 60 years	74	6.16
Educational Qualification		
Illiterate	81	6.75
Secondary	117	9.75
Higher Secondary	113	9.42
Diploma	151	12.58
Graduation	416	34.67
Post-Graduation	322	26.83
Occupation		
Business	226	18.83
Government Sector	189	15.75
Private Sector	363	30.25
Industrialist	184	15.33
Agriculture	59	4.92
Retired	61	5.08
Housewife	72	6
Student	46	3.84
Annual Income		
below Rs.1,50,000	164	13.67
between Rs.1,50,001 – Rs.3,00,000	298	24.83
between Rs.3,00,001– Rs.4,50,000	346	28.83
between Rs.4,50,001– Rs.6,00,000	213	17.75
above Rs.6,00,000	179	14.92

Source: Primary Data

The table 1 depicts that the majority of the respondents were male. Only 4.67 percent of the customers belonged to the age group below 20 years. The age group between 31 to 40 years were in large numbers followed by customers between 41-50 years of age. The educational qualification among the customers ranged between all levels. Higher percentage was found to be graduates with 34.67 percent and Post-graduates were 26.83 percent. Very few percentage of them were illiterates. Six percent of the customers were housewife.30.25 percent of the customers belonged to a private sector job and 18.83 percent had their own business. The annual income of the customers was between Rs.3, 00,001– Rs.4, 50,000 with a majority of 28.83 percent. Only 14.92 percent belonged to an income group above Rs.6, 00,000.

The customer's perception about price of low cost carriers was analyzed and the results are presented in Table 2. The results show that maximum number of the customers feel the price of the tickets is reasonable, many also feel that the price of the ticket is reasonable only when purchased both ways. The customer's opinion about service provided is worth what had been paid.

Table 2
Customer's perception about price of Low Cost Carriers

Sl. No.	Price	Mean	Standard Deviation
1	Reasonable ticket price in Low Cost Carriers	3.99	0.45
2	Affordable ticket price in Low Cost Carriers	3.78	0.71
3	Ticket price is much cheaper in Low Cost Carriers	3.39	0.41
4	The ticket price is reasonable only if purchase both ways	3.9	0.62
5	The service provided by this low cost carrier is worth what I pay for it	3.41	0.88

Source: Primary Data

The relationship between the socio economic profile of the customers and the level of perception about price of low cost carriers was analyzed and the results are presented in the below given tables.

Table 3
Gender and perception about price of low cost carriers - ANOVA

Source	SS	Degrees of Freedom	MS	F	Sig.
Between Groups	4059.754	1	4059.754	172.521	.000
Within Groups	28191.283	1198	23.532		
Total	32251.037	1199	-	-	-

Source: Primary Data

In order to examine the difference between gender of customers and their perception about price of low cost carriers, the Analysis of Variance (ANOVA) test has been applied. The F-value of 172.521 is significant at one per cent level indicating that there is a significant difference between gender of customers and their perception about price of low cost carriers. Hence, the null hypothesis of there is no significant difference between gender of customers and their perception about price of low cost carriers is rejected.

Table 4
Age and perception about price of low cost carriers - ANOVA

Source	SS	Degrees of Freedom	MS	F	Sig.
Between Groups	1963.712	5	392.742	15.483	.000
Within Groups	30287.325	1194	25.366		
Total	32251.037	1199	-	-	-

Source: Primary Data

The ANOVA test results of table 4 shows that the F-value of 15.483 is significant at one per cent level indicating that there is a significant difference between age group of customers and their perception about price of low cost carriers. Hence, the null hypothesis of there is no significant difference between age group of customers and their perception about price of low cost carriers is rejected.

Table 5
Educational Qualification and perception about price of low cost carriers -ANOVA

Source	SS	Degrees of Freedom	MS	F	Sig.
Between Groups	6483.859	5	1296.772	60.090	.000
Within Groups	25767.178	1194	21.581		
Total	32251.037	1199	-	-	-

Source: Primary Data

The educational qualification and perception of price ANOVA in table 5 depicts the F-value as 60.090 which is significant at one per cent level indicating that there is a significant difference between educational qualification of customers and their perception about price of low cost carriers. Hence, the null hypothesis of there is no significant difference between educational qualification of customers and their perception about price of low cost carriers is rejected.

Table 6
Occupation and perception about price of low cost carriers – ANOVA

Source	SS	Degrees of Freedom	MS	F	Sig.
Between Groups	7043.035	7	1006.148	47.577	.000
Within Groups	25208.002	1192	21.148		
Total	32251.037	1199	-	-	-

Source: Primary Data

Table 6 depicts F-value of 47.577 which is significant at one per cent level indicating that there is a significant difference between occupation of customers and their perception about price of low cost carriers. Hence, the null hypothesis of there is no significant difference between occupation of customers and their perception about price of low cost carriers is rejected.

Table 7
Annual Income and perception about price of low cost carriers – ANOVA

Source	*SS*	*Degrees of Freedom*	*MS*	*F*	*Sig.*
Between Groups	489.790	4	122.448	4.607	.001
Within Groups	31761.247	1195	26.578		
Total	32251.037	1199	-	-	-

Source: Primary Data

In order to examine the difference between annual income of customers and their perception about price of low cost carriers, the Analysis of Variance (ANOVA) test has been applied and the results stated that the F-value of 4.607 is significant at one per cent level indicating that there is a significant difference between annual income of customers and their perception about price of low cost carriers. Hence, the null hypothesis of there is no significant difference between annual income of customers and their perception about price of low cost carriers is rejected.

CONCLUSION

The study reveals a versatile group of customers. The customers' perception about price show that the customers feel the price of a low cost carrier to be reasonable and much better off when purchased both ways. The customers also state that the money spent on the tickets are worth it. When checked with the difference between the socio economic profile of the customer and their perception about price of low cost carriers there is a significant difference between socio-economic characteristics of customers and their perception about price of low cost carriers.