A comprehensive review of literature pertaining to the research work is given in this chapter. The major constructs namely attribute-level performance of frequent flyer programme, airline service quality, satisfaction from airline frequent flyer programme and service quality, brand image, passengers’ trust in the airline, re-buy intention of passengers which are relevant to the study were extracted through the literature survey.

2.1 ‘Airline Service Quality’ (ASQ) and ‘Re–Buy Intentions’ (RBI)

Airline Service Quality is a concern for the airline especially for those engaged in providing full service airline operations. The SERVQUAL scale has been extensively used in Korea to measure the quality of services provided by retail stores (Lee & Lee, 1997), telecommunication companies (Oh, 1995), and airline companies (Kim, 1997). Kim in his study used the scale to measure customer evaluations of airline service quality and found reliability, empathy, and tangibles showing most significant impact on customer perceptions of service quality. It is widely accepted to incorporate those industry-based measures in determining airline service quality perception of airline passengers. The initial tools of service quality measurement in the airline industry were really economic based pre-deregulatory instruments that had been developed by the Civil
Chapter - 2


Agarwal and Dey (2010) compared six different airlines operating in India and came out with a finding that there is difference in the perception of customers among the low cost and the full service carriers. It was also noted that the differentiation can occur only by adding new service elements along with providing better quality in delivering the current service.

Cunningham et al. (2002) identified the underlying five dimensions derived from industry measures of service quality by using factor analysis and results obtained are as listed below:

(a) Baggage handling;
(b) Bumping procedures;
(c) Operations and safety;
(d) In-flight comfort; and
(e) Flight connections.

Another point of view that may prompt airline passengers in the selection of an airline may be in line with risk perceptions. It could be considered as one antecedent factor that pertains to the customer evaluation of the airline service quality which in turn may affect the selection of an airline. Perceived risk has been widely dealt with in past literature since it accompanies all purchases to varying
degrees and influences buying behavior (Bettman, 1973; Cox, 1967; Chaudhuri, 1997; Cunningham, 1967; Dowling & Staelin, 1994; Mitchell, 1999).

The roles of intangible service attributes are high in developing influences on passengers’ perceptions with regard to risk and it will reflect in their evaluations about travel services (Moutinho, 1987; Sonmez & Graefe, 1998). It was noticed that till 2002, much research work have not examined or measured perceived risk in the context of airline selection decisions by passengers. Some study suggest that perceived risk is a multi-dimensional construct (Kaplan, et al., 1974; Roselius, 1971).

As per the study conducted by Cunningham, Young and Lee (2004) to verify the effect and relevance of risk factor in the selection of airline irrespective of the basic relationship between service quality – satisfaction and intention to re-purchase, examined consumer perceptions of airline service quality, perceived risk connected with air travel, and satisfaction of passengers with airlines before and after the 9/11 crisis. They found that overall satisfaction with the airline industry, brand satisfaction, and intention to re-patronize the usual brand did not change in any statistically significant fashion. The findings reflect that peripheral shocks do not affect the constructs, relating respondents were traveling less in the wake of September 11 but apparently were satisfied with the service on airline industry and brand.

The results of the above reviewed longitudinal study shows that even though the number of trips declined over the course of their research study, passengers’ overall satisfaction with the airline industry specifically on the
satisfaction with airline, and intention to re-patronize the airline by and large did not change in a statistically significant manner. It is very evident from this part of the literature that customer satisfaction and intention to re-patronize carriers are elementary issues for the survival and growth of airline companies. It is also evident that there is a true link between service quality, customer satisfaction and intention to re-buy. As seen in the above findings, there was little change in any of the variables and did not get enough empirical evidence to suggest major changes in airline service quality perceptions.

Based on the above findings, it was clear that ‘risk perception’ was not considered as a factor item that influences the constructs leading to re-buy intentions.

2.2 Service quality attributes

In spite of extensive research on service quality over the years, only very few studies have examined passenger expectations of service quality in airline industry (Cunningham et al., 2002).

Bhagyalakshmi & Nargundkar (2006) pointed out that price and service quality are the key variables that decide the brand equity of each player in the airline industry. Apart from price factor, the flying experience was divided into three phases and the performance variables associated with airline services identified in their study are:

1. Pre flight service - includes online booking facilities, discounted fare, on time performance of flights, good ground service, travelers informed in case
of delay, regular announcements about delay status quo, provide refreshments whenever there is a delay, provide accommodation if there is a long delay etc.

2. In-flight services - cover good in-flight food, courteous cabin attendants etc.

3. Post-flight service benefits - waiting time for baggage arrival, retrieval of loss baggage / compensation etc.

It was statistically inferred from their study that the differences between airlines is a multi-dimensional construct consisting of in-flight service, delay handling, baggage handling and pricing. All together these variables are basically grouped into service performance attributes, on which airlines and perception of passengers seem to differ significantly.

Park et al. (2004) investigated the effect of service quality of 22 service items on passengers' behavior in selecting airlines. Their study results indicated that passengers' perceived service quality and airline image significantly influenced the airline selection behavior of passengers.

**Flight schedule attributes:** The demand for air travel is considered as a derived demand that reflects travelers' need to participate in activities at their trip destination. Hence it was assumed that the scheduling of various activities of passengers determines their preferred departure and arrival times at their destination. From this service design perspective, the carrier objective is to develop a flight schedule that is best suited to the passengers' departure time preferences. In the air travel literature, schedule delay has been defined as a
measure of convenience related to the difference between preferred and flight departure times (Douglas and Miller, 1974). The schedule delay concept were used to calculate an index that measures the convenience of air service taking into account all "time-related costs associated with air travel (Bailey et al., 1985). A similar concept is used in empirical studies to estimate travelers' sensitivity to the average time between scheduled departures (Morrison and Winston, 1985, 1986).

**Fare class attributes:** The airline fare class structure and variations force passengers to make hidden tradeoffs among fare levels, advance purchase requirements, travel restrictions, service amenities available at terminal as well as on-board, and penalties imposed for flight cancellations.

### 2.3 Relationship between ‘Airline Service Quality’, ‘Satisfaction’ and ‘Re-buy intention’

Bloemer et al. (1999) linked perceived service quality and service loyalty in a multi-dimensional perspective in which it was noted that loyalty is often included in service quality models as an outcome variable (Cronin and Taylor, 1992; Boulding et al., 1993) while number of factors that limit an in-depth understanding of customer loyalty in services and prevent the generalization of research findings. Findings from such studies showed that it has remained unclear whether or not there is a direct relationship between service quality performance and re-buy intentions. Zeithaml et al. (1996) report such a relationship, whereas Cronin and Taylor (1992) were not able to find such a relationship. Caruana (2002) indicate that customer satisfaction does play a mediating role in the effect of service quality on service loyalty.
Ruben Chumpitaz and Valérie Swaen (2003) pointed out the effect of mediation role of satisfaction in the relationships between service quality, consumer satisfaction and brand loyalty. Their study support the argument that service quality is an antecedent to satisfaction and satisfaction has a positive influence on purchase intentions. It strongly supports the mediating effect of consumer satisfaction functions between service quality dimensions and re-buy intentions, however the major emphasis on their study was on loyalty determinants, as brand loyalty being the dependant variable, while the effects of other aspects such as promotional programmes like loyalty schemes and perceived value were not considered. Their study postulates a hypothetical relationship between service quality - consumer satisfaction - brands loyalty in such a way that service quality performance leads to customer satisfaction.

Many other studies also investigated the relationship between service quality and consumer satisfaction. Even though some authors conclude the antecedent role of consumer satisfaction regarding service quality (e.g., Bolton and Drew, 1991; Boulding et al., 1993), most of them support the hypothesis that service quality leads to consumer satisfaction (Anderson, Fornell and Lehman, 1994; Cronin and Taylor, 1992; Dick and Basu, 1994). A lot of studies conclude the positive impact of consumer satisfaction on brand loyalty (e.g., Bloemer and Kasper, 1995; Cronin and Taylor, 1992; Fornell, 1992; Fornell et al., 1996). Literature and empirical testing confirm the link between service quality and brand loyalty, as service quality leads to brand loyalty. Some evidences suggest the existence of both a direct and an indirect relationship from service quality to purchase intention and brand loyalty.
There exist a direct, positive and significant relationship between customer perceptions of service quality and their intentions to buy, and willingness to recommend the company (Boulding et al., 1993; Parasuraman et al., 1988; 1991; Zeithaml, Berry and Parasuraman, 1996).

Cronin and Taylor (1992), using structural equation modeling, concluded an indirect relationship between service quality and brand dependability: service quality is a determinant of consumer satisfaction and so it is satisfaction, not perceived quality that directly affects purchase intentions. This indirect effect of service quality mentioned above provides support to the specific mediating role of consumer satisfaction in the relationship between service quality and brand loyalty, however not tested in an airline context as well as with re-buy intention as a dependent variable. The major dimensions of service quality observed in their study are the check-in service, the service on board, the food quality, and the aircraft cleanliness and comfort.

Ruben Chumpitaz et al. (2007) analyzed service quality, relationship satisfaction, trust, commitment and business-to-business loyalty and established a theoretical basis for evaluating a strategic increase in customers’ perceptions of service/product quality – specifically in terms of an increase in relationship quality and customer loyalty in a B2B environment. Using the Gronroos conceptualization, a clear pattern of service-quality dimensions was established and several important findings were reported – including empirical verification of the mediating role of overall relationship of satisfaction in the formation of loyalty attributes. Their study empirically tests the formulated model to establish the
effects of service-quality variables and relationship variables on customer loyalty in a B2B setting.

Cunningham and Young (2002) pointed out several key variables that determine customer intention to repurchase an airline brand. Reliability and empathy variables are significant for US passengers, and reliability and overall risk for Korean passengers. The study also demonstrates the validity of service reliability as a key predictor in both satisfaction and repurchases behavior. It is noteworthy that this finding on the effect of service quality on re buying intention is consistent with prior research dealing with airline service quality (Young, et al., 1994).

The link between service quality- satisfaction – repurchase intention were observed in many studies. Nadiri and Hussain (2008) studied the same relationship in a different perspective especially in a new emerging market with an aim to spot service quality perceptions of airline passengers. Effects of these perceptions on their satisfaction level and thereby repurchase intentions, specifically in a new emerging market in the Mediterranean region with respect to North Cyprus Airline were identified in eight distinct dimensions as given below:

1. airline tangibles,
2. terminal tangibles,
3. personnel,
4. empathy,
5. image,
6. customer satisfaction,
7. repurchase intention, and
8. word-of-mouth (WOM) communication

Findings from their study confirmed that customer satisfaction is positively related to repurchase and word-of-mouth intentions. Hence it can be presumed that service quality supports customer satisfaction, which in turn stimulates intention to repurchase, and encourages recommendations (Nadiri and Hussain, 2008). The same dimensions are also used in prior empirical studies (Dean, 2007; Kozak et al., 2003; Parasuraman et al., 1988; Sultan and Simpson, 2000). Behavioral aspects of customer loyalty were characterized in terms of both repurchase intentions & word-of-mouth (WOM) communication, and recommendations. Existing literature recognizes the importance of repurchase and WOM intentions and for this reason these two dimensions were recommended for further studies as outcome of service quality perceptions (Anderson et al., 1997; Oliver, 1980; Yi, 1990). Customer satisfaction is considered to be the predictor of repurchase intentions by many authors (Cronin and Taylor, 1992; Davidow, 2003; Ekiz and Arasli, 2007; Karatepe and Ekiz, 2004; Yi, 1990; Zeithaml et al., 1996).

There are splendid evidences to show that repurchase intention is an outcome of service quality perceptions as well as satisfaction obtained from purchase episode (Carman, 1990; Leghoerel, 1998; Singh, 1988; Smith et al., 1999; Zeithaml and Bitner, 2000).
According to Zeithaml and Bitner (2000) quality is considered to be a cause of satisfaction and service quality refers to the specific attributes of the service. However it is also revealed from the fact that the perceptions of airline service quality are quite diverse and do not seem to fit any single existing quality model such as the service quality model (Haynes & Percy, 1994).

Cunningham et al. (2002) compared U.S. and Korean customers in terms of their perceptions of airline service quality based on SERVPERF and industry-based measures. This study examined using SERVPERF, industry-based measures, and perceived risk in predicting customer satisfaction with intention to re buy the airline brand. The results suggest that U.S. passengers consider service reliability, in-flight comfort, and flight connections as the key factors determining satisfaction with airline service whereas Korean passengers generally consider reliability, assurance, and risk factors as predictors of satisfaction.

Cunningham et al. (2002) basically analyzed customer perceptions of services and risk of services provided by commercial airline companies in a cross-cultural setting; and also to assess the effectiveness of existing measures of service quality and risk in predicting customer satisfaction and intention to re-patronize the services. The above study was focused on the change in consumer perception about service quality and variations in passenger satisfaction level which lead to intention to re buy the services but with respect to a context which was a major incident (Sep 11 tragedy). Since the focus was within the context of such an incident, risk factors were included in the study with more attention, on the other hand recent studies have made an indirect attempt to associate the
interrelationship between service quality dimensions causing customer satisfaction and thereby intention to repurchase the same brand of airline. This direct positive relationship is formulated as hypothesis for the present research study.

2.4 Linkages of ‘Service loyalty’ and ‘Re-buy intentions’

Though explicit connections between the service quality dimensions and dimensions of service loyalty in terms of buying intention have not been completely researched in the services marketing domain so far, an understanding of the construct of service quality existed to a limited extent, ignoring the full range of conceivable loyalty (re)actions that may follow the evaluation of a service (Zeithaml et al., 1996).

Cronin and Taylor (1992), in their study focused on repurchase intentions (measuring this construct as a single item), while Boulding et al. (1993) operationalised repurchase intentions and willingness to recommend (as two single items in a study and measured using six items in a follow-up study). Zeithaml et al. (1996) proposed dimensions of loyalty with items such as willingness to pay more and loyalty under increased pricing. It is evident from their study that re-purchase intention is considered as one of the integral component of loyalty. There are studies showing service quality dimensions linked directly to customer loyalty or through ‘satisfaction’.

Generalizations about service quality performance are possible only when the multi-dimensional service settings are tested in terms of service characteristics while measuring service quality. It has to be considered with respect to the
service perspective and the industry-specific characteristics reflected in many service sectors as suggested by leading services researchers (Lovelock, 1984; Fornell, 1992).

Some evidence exists on the relative importance of the five well-established individual SERVQUAL dimensions such as reliability, responsiveness, tangibles, assurance and empathy. Parasuraman et al. (1988) and Zeithaml et al. (1990) argue that reliability is the most important dimension with regard to customer loyalty, apart from the service setting.

Various studies clearly support the quality-loyalty relationship. Bloemer et al.’s (1999) analysis of four different service type industries yielded an elaborate pattern of quality-loyalty relationships at the level of the various quality dimensions. An analysis of cross industry perspective yields a different picture for each industry. While word-of-mouth is predominantly determined by responsiveness and tangibles in the entertainment industries, word-of-mouth communication in the fast food industry is mainly influenced by assurance and empathy. This reveals the importance of both a multidimensional and a cross-industry approach to service loyalty or to re-buy intentions.

The different variables associated with the measurement of service - loyalty which cause buying / re- purchase behavior as given by Boulding et al. & Zeithaml et al. are given below (a – c).

a. Boulding et al. (1993) identifies service loyalty variables as:
   1. Re-purchase intentions
   2. Willingness to recommend
b. Zeithaml et al. (1996 a) argue, dimensions of loyalty, as:
   1. Willingness to pay more
   2. Loyalty under increased pricing

c. Zeithaml et al. (1996 b) proposed a comprehensive, multi-dimensional framework comprised of the following four dimensions of service loyalty:
   1. purchase intentions
   2. word-of-mouth communication
   3. price sensitivity
   4. Complaining behavior

On the basis of factor analysis with 13 item scale, five underlying dimensions were identified by Zeithaml et al. (1996):
   (1) Loyalty to company
   (2) Propensity to switch
   (3) Willingness to pay more
   (4) External response to problem and
   (5) Internal response to problem

2.5 Distinction between customer satisfaction and service quality

Zeithaml (1988) defined perceived quality as the consumer’s judgment about the overall excellence or superiority of a product or service in comparison with that of the competition. Along the same lines, Anderson and Fornell (1994) defined it as the consumer’s “global judgment of a supplier’s current offering”.
The major distinction between customer satisfaction and service quality is provided in table 2.1 which make clear the fact that both are separate constructs and to be measured independently.

Table 2.1 Customer satisfaction vs. Service quality

<table>
<thead>
<tr>
<th>Customer satisfaction</th>
<th>Service quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction can result from any dimension, whether or not it is quality</td>
<td>The dimensions underlying quality judgments are rather specific.</td>
</tr>
<tr>
<td>related.</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction judgments can be formed by a large number of non-quality issues,</td>
<td>Expectations for quality are based on ideals or perceptions of excellence.</td>
</tr>
<tr>
<td>such as needs, equity, perceptions of fairness.</td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction is believed to have more conceptual antecedents</td>
<td>Service quality has less conceptual antecedents</td>
</tr>
<tr>
<td>Satisfaction judgments do require experience with the service or provider.</td>
<td>Quality perceptions do not require experience with the service or provider.</td>
</tr>
</tbody>
</table>

Source: Adapted from various sources (Oliver, 1993; Rust and Oliver, 1994; Spreng et al., 1996; Choi et al., 2004)

2.6. Relationship between ASQ and FFP through relationship quality

This research focused on the link between satisfactions obtained from service quality attribute-level performance and loyalty programme attribute-level performance. FFP performance dimensions are very much part of relationship marketing (Gronroos, 1993; Gwinner et al., 1998).
It can be presumed that the ‘relationship quality’ is linked with the performance of loyalty programme and by this means the satisfaction derived from the quality will have an effect on the satisfaction from the loyalty programme offered by an airline.

The importance of relationship satisfaction and trust as indicators of the higher order construct of relationship quality have been stressed by various authors (Crosby et al., 1990; Dwyer et al., 1987; Shamdasani and Balakrishnan, 2000; Hennig-Thurau et al., 2001).

### 2.7 Influence of Frequent Flyer Programme (FFP)

As competition in the air travel industry has become vibrant, many airlines are struggling to attract passengers through various promotional schemes as part of its competitive strategies. Moreover, it is well accepted that retaining passengers is more beneficial than acquiring new ones. Of these competitive strategies, FFPs do play a really significant role in the selection of airlines by passengers.

Many studies on airline services supported the case that so many aspects other than service quality affect travel choice of an airline and its demand. In this perspective studies focusing on the importance of such factors other than quality of service were reviewed. Other facets referred in previous studies are carrier brand preferences, market presence, frequent flyer programme membership, schedule convenience and airline fares. These factors were reviewed and identified the importance of each facet on airline travel demand.
Various studies show that ‘change in buyer behavior’ is resulted from different levels of affection to customer loyalty programme. Some authors have contention about customer loyalty programme that it functions as a promotional tool in airline marketing with a long-term dimension, so that the incentives offered are prolonged over time (Blattberg & Neslin, 1990; Divett, Crittenden, & Henderson, 2003; Gupta, 1988; Long & Schiffman, 2000; Wansink & Deshpande, 1994). On the other hand some authors uphold the idea that customer loyalty programme involve the application of the relationship marketing philosophy (Deigthon, Henderson, & Neslin, 1994; Long & Schiffman, 2000; Wansink & Seed, 2001) in such a way that loyal and frequent buyers are rewarded with the aim of building lasting relationships with them. Studies have indicated that adherence to this kind of programme has a positive influence on the consumers’ attitudinal loyalty (Noordhoff et al., 2004) and behavioral loyalty (Meyer-Waarden, 2007; Noordhoff et al., 2004).

Some studies have dealt with the effect of customer loyalty programme on behavior and loyalty between individuals who belong and those who do not belong to the system (Magi, 2003; Meyer-Waarden, 2007; Noordhoff et al., 2004). These studies examined whether individuals belonging to the loyalty programme are more loyal than those who are not members.

Customer loyalty programmes tend to attract customers who are more loyal to the firm (Dowling & Uncles, 1997; Kim, Shi, & Srinivasan, 2001; Long & Schiffman, 2000; Magi, 2003; Meyer-Waarden, 2007; Sharp & Sharp, 1997; Wright & Sparks, 1999). Therefore these arguments postulate hypothesis for the current
research about the influence of loyalty programme in the re-buy intention of buyers.

According to Proussaloglou & Koppelman (1999) business and leisure travelers are ready to pay more fare in order to avoid airline schedule delays. They choose a carrier in which they have frequent flyer programme, and would like to obtain the facilities and freedom from travel restrictions associated with higher fare classes.

Air travelers seek information from travel agents and other sources like company websites and identify their options based on their previous air travel experience, carrier and fare class preferences; and evaluate their options to select the most attractive carrier, flight, and fare combination. Nason (1981) relates travelers' carrier choice to a carrier's service attributes; Chandrashaker (1989) studied the determinants of air traveler choice; Proussaloglou and Koppelman (1995) adopt a market research approach in developing models of carrier choice.

Goh and Uncles (2003) examined business travelers’ awareness of these benefits and their rating in the context of global airline alliances. They found that there is a reasonable level of awareness of some of these benefits, whereas misconceptions exist about others. The ability to accrue frequent flier programme (FFP) points on any airline in the alliance and the greater network access were the two benefits most respondents were aware of and this could be the reason for heavy focus on these benefits in the alliances’ promotional efforts.
Weber (2005), in his analyses on perceptions of travelers on airline alliance benefits and performance indicated that about 60% of all respondents were members of at least one FFP. Frequent flyer programme membership differed between frequent and infrequent flyers. Frequent flyers were typically enrolled in FFPs of at least three and as many as five different airlines of various global airline alliances, whereas the not very frequent flyers were typically enrolled in only one or two FFPs at the most. This characteristic feature put forward the assumption that the intention of frequent flyers’ to induce greater repurchases to one particular airline is directly associated with the number of FFPs possessed by the frequent passengers (Toh, Hu, and Browne 1999; Kearney 1990).

Proussaloglou & Koppelman (1999) viewed the individual traveler as a rational decision maker who actively searches for options that satisfy his air travel plans, evaluates the identified options, and choose the option with the highest overall utility that satisfies his individual scheduling constraints. The decision rule applied to modeling individual choice behavior in their study was based on the assumption of a rational decision maker who lacks perfect information and maximizes passengers overall choice utility. The probability that an individual selects an option is defined as the probability that its utility is larger than the utility of all other alternatives (Ben Akiva and Lerman, 1985).

Review of literature shows that the air passengers’ choice among flights offered by different carriers at a range of fare levels present air travelers with a three-dimensional choice situation, these dimensions are: (1) a range of attributes representing carrier level of service; (2) the schedule convenience of alternative
flights; and (3) fare class amenities and restrictions. According to Proussaloglou & Koppelman (1999) travelers faced with the joint choice of carrier, flight, and fare class, are therefore likely to make tradeoffs among a carrier's overall service, the convenience of its particular flight schedule, and the fare levels and service attributes of each fare class.

O’Connell & Williams (2005) concluded in their study pointing the various reasons in the selection of a full service carrier by passengers which includes: service quality, flight schedules, fares, connections, frequent flyer programme, comfort, safety and company policy.

Some authors (Martín, Román and Espino, 2011) considered FFP as a part of service quality attribute while some authors do not think so. Some others described levels of service in terms of the carrier's overall presence in an origin market, its overall quality of service and reputation, and its frequent flyer programme, (Here, FFP is viewed as a service attribute, whereas many other studies explain FFP as a promotional / loyalty programme and not as part of a service product). Quality of service and reputation often reflect a carrier's on-time performance, its safety record, and the terminal and onboard amenities.

Lemon and Wangenheim (2009) investigated the relationship between core service usage, customer satisfaction, and cross-buy of three additional services offered by the airline’s programme partners to its customers who have signed up for the airline’s frequent flyer programme (hotel booking, car rental, and credit card usage). They also tested a model that investigates the relationships between these constructs.
Evert de Boer and Gudmundsson (2012) analyzed 30 years performance of frequent flyer programme and found that FFP can be treated as a separate profit center and can be isolated from the core airline service as a product with its own value. It was quoted in the literature focusing on the effectiveness and distinctiveness of FFP. Dowling and Uncles (1997) observed that a customer loyalty programme can only be beneficial in the following four situations:

(1) The scheme directly supports the customer value proposition
(2) Relationship building adds to perceived value
(3) The lifetime customer value is high, and
(4) Customer retention costs are less than acquisition costs

On the other hand Nunes and Dreze (2006) argued that there are five goals loyalty programme can really serve. They are:

(1) keep customers from defecting
(2) win greater share of wallet
(3) prompt customers to make additional purchases
(4) yield insight into customer behavior and preferences, and
(5) turn a profit

Harris (2000) argued that “FFPs are highly profitable, generating more than average partnership revenues per ticket at a significantly lower cost (no commissions, computer reservation system expenses, or credit card fees).” Harris contention was that given the value of the programme, “FFPs should be treated as separate business units and readied for partial spin-offs, thereby enhancing airline valuations”. It was observed in the literature that many frequent flyer programmes have separated completely from their core airlines, which includes Aeroplan (Air
Canada), Multiplus (TAM), Club Premier (Aeromexico) and Qantas Frequent Flyer (Qantas). These autonomous next-generation programmes (NGPs) are defined as commercial entities operating at arm’s length from the airline, with the objective of generating profits. They are different from the advanced stage in three key areas: the business model, the company structure and the target customer.

Separating the FFP from the core airline had been done before. One such earliest example was the Qualiflyer Company that joined several airlines in one programme and also managed individual programme for other airlines (Gudmundsson et al., 2002).

Many consumers are belonging to more than one programme within the same type of activity (Meyer-Waarden, 2007). In this light, adherence to more than one loyalty programme implies a sharing out of visits and expenditures among the various firms / brands, which has given rise to doubts with respect to the effectiveness of this sort of initiative for companies (Dowling & Uncles, 1997; Magi, 2003; Mauri, 2003). On the other hand, despite the enormous amount of interest provoked by this subject, the evidence obtained in this regard is very meager and exhibits contradictory results (Lewis, 2004; Magi, 2003; Meyer-Waarden, 2007; Noordhoff, Pauwels & Odekerken- Schroder, 2004; Taylor & Neslin, 2005; Yi & Jeon, 2003).

Customer loyalty programme will only be effective if the company offers the customer a service that is perceived to be similar or superior to that of the competitors; otherwise the consumer may switch to other alternatives available in the market. On the other hand, the effectiveness of customer loyalty programme
will also be subject to the trust of the customer in the company, since this determines the credibility of the advantages and incentives offered by the system.

2.8 Influence of loyalty programme found in other service sectors

Studies on the effectiveness of loyalty programmes in retail and other service sectors were examined to get an idea in this regard as such studies in the airline context are scanty.

Jesu´s Agudo et al. (2012) examined the factors that influence the effectiveness of customer loyalty programme to cause a change in consumers’ behavior in retail service sector and three explanatory variables were analyzed: (1) the quality of service offered to the customer, (2) customer’s trust in the company, and (3) their attitude towards loyalty programme. These variables are very much invariably proposed to be used in this research among airline frequent passengers in the Indian airline market context.

Jesu´s Agudo et al. (2012) indicated that a change in the buyer’s behavior is directly influenced by their loyalty to the retailer /company and by their attitude towards loyalty programme. Moreover, a noticeable indirect effect on changes in buyer behavior caused by the quality of service and the consumer's attitude towards loyalty programme were observed. It is obvious that re-purchase behavior can be attributed by the joint effect caused by satisfaction in service performance attributes and loyalty programme benefits. Though this empirical finding was apparently observed in the retail sector, the same relationship can be made applicable or can be hypothesized in the airline context as well.
Gudmundsson et al. (2002), in their study integrates frequent flyer programme in multilateral airline alliances, and found that there are substantial benefits in airlines merging FFPs in the long run. The most interestingly noted finding in their study was that the FFP alliance gives a coherent look and a reduction in perceived variances in service quality. This postulates a link between the core service aspects satisfaction and FFP attribute-level performance satisfaction of passengers.

Omar and Musa (2011) developed a scale to measure service quality in retail loyalty programme (LPS Qual) and tried to find out the implications for retailers’ retention strategies; however, the secluded effect of loyalty programme in conjunction with core services in a single model was not studied. Miranda et al. (2005), showed an outcome of model estimation which explains that factors with a significant influence on store satisfaction have little in common with others that impel shoppers to remain loyal to one store. Indeed, there was no evidence in their study that shoppers' overall satisfaction was by itself a significant influence on continued patronage.

2.9 Link between loyalty programme and ‘satisfaction’

Gronroos (1993) observed that establishing a relationship with a customer can be divided into two parts:

1. To attract the customer and
2. To build the relationship with that customer so that the economic goals of that relationship are achieved.
The fundamental principles upon which relationship marketing is based are mutual value creation, trust, and commitment. Greater the level of customer satisfaction with the relationship, not just the product or service, the greater will be the likelihood that the customer will be loyal to the company providing that service or the product. It is evident that the objective of relationship marketing is to achieve high levels of customer satisfaction through collaboration of the parties involved (Payne et al., 1995). There is little empirical evidence regarding the nature and extent of the overall impact of relationship-marketing practices on relationship-quality outcomes (Gwinner et al., 1998).

Quality is one dimension on which satisfaction is based (Rust and Oliver, 2000, p.6). This finding indicates that other dimensions apart from quality like loyalty scheme can also be the base for relationship satisfaction.

Frequent Flyer Programme (FFP) at a macro level can be viewed as an extension to the concept of relationship marketing. The concept of FFPs is considered to be an excellent example of the use of relationship marketing to build customer loyalty (Palmer & Mayer, 1996; Rodriguez, 1997).

2.9.1. Relationship satisfaction

In the past, relationship satisfaction has been conceptualized as a prerequisite for relationship quality. Crosby and Stevens (1987) identified three levels of relationship satisfaction:

(1) Interactions with personnel

(2) Core service, and

(3) The organization
In a business context, relationship satisfaction has been defined as a positive affective state resulting from a firm’s appraisal of all aspects of its working relationship with another firm as cited by Ganesan (1994); Dwyer et al. (1987). Relationship satisfaction is a cumulative affect developed over the course of a relationship – not as the outcome of a specific transaction (Anderson et al., 1997).

2.10 Influence of FFP satisfaction on re-buy intention

The role of satisfaction in predicting behavioral intentions is well established by many authors (Anderson et al., 1994; Cronin and Taylor, 1992; Zeithaml et al., 1996). Most of the studies assume that previous experience of transactional customer relationships is a key determinant of repeated purchasing behavior. Many studies have established relationships between service quality and loyalty, hypothesizing an indirect effect mediated by satisfaction (Andreassen and Lindestad, 1998; Ostrowski et al., 1993; Patterson and Spreng, 1997; Pritchard and Howard, 1997). There exist study findings which provide evidences of a positive direct relationship between relationship satisfaction and loyalty. Ping (1993) in line with Hirschman (1970) states that as overall relationship satisfaction declines, loyal behavior should also decline and perhaps more likely ending the relationship.

As indicated earlier, customer satisfaction is found to be direct predictor of repurchase and word of mouth intentions (Cronin and Taylor, 1992). Many researches show that the higher the degree of customer satisfaction, the greater the chances of repurchase and spreading positive word of mouth communication (Davidow, 2003; Ekiz and Arasli, 2007).
Proussaloglou & Koppelman (1999) indicated that loyalty-inducing effects of frequent-flyer programs are reflected in positive and significant coefficients for membership in a frequent-flyer programme. Active participation of low-frequency passengers in a carrier's programme is comparatively lower than more frequent air passengers.

Proussaloglou & Koppelman (1999) compared willingness of different types of passengers to pay for their travel with preferred carrier at three premium airfare levels and also examined passenger's perceived value of membership in a carrier's frequent flyer programme. This finding reflected travelers' tradeoffs between the cost of travel and the benefits of different levels of frequent flyer membership. It was observed that business travelers are willing to pay a premium of $21 to travel with a carrier in whose frequent flyer programme they participate and $52 for low frequency travelers and $72 for high-frequency travelers to fly with the carrier in whose frequent flyer programme they most actively accumulate mileage points. The same patterns of willingness to pay are evident in leisure travelers' evaluation of frequent-flyer programme membership; however, the premiums that leisure travelers are willing to pay are substantially lower. These premiums range from a low of $7 for leisure travelers who simply participate in a carrier's frequent flyer programme to $18 for low frequency and $26 for high-frequency airline passengers seeking to travel with the carrier in whose programme they most actively accumulate mileage points.
Proussaloglou & Koppelman (1999) also revealed that the differences among segments of the air travel market demonstrate the higher price sensitivity of leisure travelers, the greater importance of convenient schedules to business travelers, and the strong influence of active participation in carriers' frequent-flyer programme especially on the choice behavior of airline frequent passengers.

Martín et al. (2011) investigated the importance of FFPs in passengers' choice of airlines, whether passengers are really willing to pay a premium for FFPs, and also whether FFPs have an adequate rate of return and FFPs are really justified or not. Nathalie et al. (2011) found that FFP members are willing to pay a price premium of up to six percent, which is directly attributed by the FFP. These results indicate that FFPs have an effect on passengers' satisfaction and choice of an airline.

Gallacher (1999) argues that bilateral FFP are less effective in attracting high-yield passengers than their multi lateral counterparts. Whitaker (1998) suggested that airlines competition will be upon details such as which alliance has the best connecting possibilities, most efficient check-in at airports, most appealing and fastest website, better airport lounges, and provides the most personal recognition.

Carlsson and Lofgren (2004) found that Eurobonus substantially increased the costs (12% of the average ticket price) for passengers who change SAS airline for domestic Swedish routes. Proussaloglou and Koppelman (1999) also indicated that FFPs are effective reward systems for repeated purchases that make demand less price elastic.
According to Gudmundsson et al. (2002, p. 414) “there should be a clear separation between the mileage as a currency on the one hand, and service benefits such as priority check-in and lounge access on the other”. Their study discussed how carrier loyalty affects brand loyalty and indicated that there should be limits to the kind of products airlines could include in their brand FFP.

From the review of literature some important attributes were extracted which were used in previous studies (Alamdari, 1999; Mason, 2000; Evangelho et al., 2005). These studies found that the most influential factors affecting business passengers were reliability, punctuality, seating comfort and schedules. Price was the most important factor for leisure passengers. In spite of the above factors, FFPs were also considered as important and very much discussed in these studies.

Some studies found that higher yields do not compensate the extra costs associated with the provision of added value services (Alamdari, 1999 and Alamdari & Fagan, 2005). So airlines need to rely on yield from its FFPs. Martín et al. (2011) in their study concluded with a notable point that Willingness to Pay (WTP) measures is not insignificant in any case. WTP are usually higher for FFP passengers when the ticket is paid by the firm, and many leisure travelers are likely to choose the lowest-priced carrier, regardless of service quality.

It is noted that just three per cent of US passengers are frequent flyers through which they fly more than 12 trips per annum, however, this three per cent represents 27 per cent of total trips and an excess of 40 per cent of revenue (Toh

Morrison et al. (1989) described, using the U.S. DOT Origin and Destination data that FFP membership has a significant impact on airline choice. They estimated that an airline offering FFP mileage could increase the average airfare by US$ 30 for an average single trip. Borenstein (1989) hints that approximately two percent point of a given fare premium might be attributable to an FFP effect. Findings of Morrison et al. (1989) and Nako (1997) are based on disaggregated corporate level data to further quantify the effects of FFPs on airfare premiums. It is also evident from the study by Morrison and Winston (1995) that a traveler’s valuation of additional FFP points is associated with the airlines FFP point award schedules.

Gudmundsson et al. (2002) estimated that, the average frequent flyer is a member of approximately three programmes. Petersen (2006) indicated that the worlds frequent flyer programme boasted more than 180 million members; 120 million of these were U.S. residents. In the accounts of those members: there are almost 10 trillion outstanding miles as on January 2006. Gallacher (1997) asserts that the major alliance partners strengthened the ties between their FFPs, because this strategy better influenced business class passengers than other strategies like code-sharing.

Airline network effects (where the airline operates and number of partners they have) are seen as enhancing FFPs. This in turn is supposed to lead to increases in the underlying value of FFPs to its members (Lederman, 2007). The
larger the flight network connectivity of an airline, the earning and award possibilities for FFP members will be more, which makes the FFP more valuable and attractive to FFP members.

Experts suggest that FFPs ultimately either negatively affect competition in the airline industry, as they raise barriers to entry, or alternatively erode airline profitability because airlines are caught in a prisoner’s dilemma type situation (Banerjee and Summers 1987 and Basso et al. 2009). Airline companies have been taking advantage of this tendency by using a wide range of promotional devices that offer benefits (points, miles, rebates, coupons) in return for the expenditure of effort (flying more, paying higher fares). Moreover, airlines have also been benefiting from the principle of consumer behavior called the “idiosyncratic fit heuristic” (Kivetz & Simonson, 2003, p. 455) wherein these type of consumers are tempted by offers for which they enjoy a relative advantage by perceiving their own effort in complying with the programme requirements as lower than the effort of typical other consumers. Changing the benefits of a frequent flyer programme by increasing redemption requirements can impact frequent flyers’ perception of value (O’Malley, 1998).

Frequent flyer programme provide value to their members in two stages (Kivetz & Simonson, 2002). In the first stage, programme points are issued to members after paying the airline for tickets and receiving the services and in the second stage, members redeemed their points for free travel. According to Liu (2007), points have no practical value until they are redeemed, but do have an important psychological meaning to frequent flyer members. Point accumulation
creates an anticipation of positive future events, which increases members’ likelihood of staying in the loyalty programme. Hence frequent flyer programme are often considered as value-sharing instruments and the ability to provide superior value is instrumental to customer relationship initiation and retention (Dowling & Uncles, 1997).

Sahoo and Vyas (2007) identified the benefits that serve by loyalty programme to the airline with a sense that most airlines have idle capacity on a practically regular basis. Moreover, the link between FFP benefits with other service aspects that affect customer to remain loyal to an airline that assures safety, efficient and pleasing service, and recognition of their preferences is reflected in their statement ‘People fly on those airlines where the brand experience is unique’.

Proussaloglou and Koppelman (1995) found that carrier choice is influenced by FFP membership. FFPs were found to better predict carrier choice than schedule convenience, low fares and timeliness. They conclude that any major changes to well-established FFPs may have serious implications for the airlines’ passenger base.

Mason and Barker (1996) highlighted the importance of FFPs saying that FFPs are now an integral part of airline marketing. All major airlines operate such incentive schemes and, in general, there is little to distinguish one from another. Business travelers tend to choose an airline on the basis of punctuality, service and safety but almost all major carriers are now providing these as a basic part of
their service. FFP schemes that offer the most incentives are likely to be one of the greatest influences on individual passenger’s choice of airline.

Mason (2001) explored the influence of several factors including fare, frequent flyer programme, flight frequency, and in-flight comfort, on selecting low cost carriers for passengers of European short-haul business flights. His study found that LCC is more attractive to medium and small sized companies.

Yang & Liu (2003), clearly indicate the importance of FFPs as an effective marketing technique in the airline industry with positive implications for the financial performance of the carriers involved and their strategic alliance partners. A few studies (Ostrowski, O'Brien, and Gordon 1993; Riven, Toh, and Alaoui 1991; Knutson 1988; Woodside, Cook, and Mindak 1987) have investigated frequent usage and loyalty programme as cause for repeat patronage.

2.11 Link between ‘Loyalty programme based satisfaction’ and ‘Service based satisfaction’

Gudmundsson et.al (2002) indicated that FFP features and core service related aspects are perceived differently by passengers. Airline passengers may be predisposed to have certain brand beliefs towards airline and this belief may lead to a propensity to select those airline brands which provide most suitable customer loyalty programme. Even though customer satisfaction and loyalty constructs has been examined in the air transport context, factors such as patronage between core service features and customer loyalty programme attributes tend to be ignored in the existing literature.
Özlem Atalik (2007) examined customer complaints about airline service perceived by frequent flyers and those complaints were grouped into five categories (see table 2.2). It is noteworthy that each of these categories are either coming under either ‘structure’ specific or with the ‘service’ specific dimensions of the programme.

Table 2.2 Types of customer complaints according to Özlem Atalik (2007)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Structure specific complaint</th>
<th>Complaint percentage</th>
<th>Sl. No.</th>
<th>Service specific complaint</th>
<th>Complaint percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lack of free tickets and upgrades of the flight class</td>
<td>93.75 %</td>
<td>1</td>
<td>Nature and level of priority services offered within the programme</td>
<td>56.74 %</td>
</tr>
<tr>
<td>2</td>
<td>Card ownership issues (e.g. high miles needed to retain membership)</td>
<td>65.79 %</td>
<td>2</td>
<td>Behavior of personnel</td>
<td>32.89 %</td>
</tr>
<tr>
<td>3</td>
<td>Lack of alliance with other airlines</td>
<td>46.88 %</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: extracted from Özlem Atalik (2007)
Simply providing a loyalty programme cannot provide any value to the customers, instead their level of satisfaction with respect to service related attributes are also to be maintained at the expected level. (Please refer to the factor dimensions explored with respect to FFP attribute level performance in terms of service and structure in Chapter IV).

Dolnicar et al. (2011), assessed the key drivers of airline loyalty in which an important observation were made to the point that a passenger can be very unhappy with the frequent flyer programme because miles expire and too many miles are charged for an upgrade to business class (low satisfaction), but may still always choose an airline that has a frequent flyer programme because the passenger can accumulate miles for private trips. This represents a rational decision, driven by benefit maximization rather than being driven by the satisfaction with the programme, and thus demonstrates that satisfaction with a frequent flyer programme and choice of the airline simply because of its operation of a frequent flyer programme is not necessarily associated.

Andreassen and Lindestad (1998) argued that intrinsic cues (such as product attitudes) are strongly tied to the product or service, whereas extrinsic cues (such as corporate/Brand image) are only part of the product or service. Selnes (1993) viewed that extrinsic cues will be consulted more intensively when intrinsic cues have low predictive value.

Whyte (2003), studied attitudes and attributes of corporate travelers, and noted that service attributes are more important than FFP attributes. Service attributes were only briefly explored to test whether members would be willing to
forgo points, but however retain key service aspects. The results of their study show that importance of service attributes overrides the importance of gaining points if the journey time is longer and found true especially for long-haul travelers, but indicated the scope for further research in this area that more work needs to be done with regard to the effect of FFP.

Oliver and Swan (1989) carried out research on automobile purchase behavior of customers and their findings show that automobile performance satisfaction is a positive function of satisfaction with the dealer and automobile disconfirmation, and is an inverse function of complaint frequency. Salesperson satisfaction and performance experience did not appear to contribute significantly to the car satisfaction equation. Findings of their study provide evidences for the antecedent effect of satisfaction of sales person, which caused (full-mediation) through another satisfaction (dealer satisfaction) on the dependent variable, namely product satisfaction.

### 2.12 Mediating role of satisfaction

Satisfaction is an overall affective response to a perceived discrepancy between prior expectation and perceived performance after consumption (Oliver, 1980; Engel et al., 1990). Satisfaction is defined as the degree to which one believes that an experience evokes positive feelings (Rust and Oliver, 1994).

Cronin and Taylor (1992) derived empirical provision for the idea that perceived service quality led to satisfaction and argued that service quality was actually an antecedent of consumer satisfaction. Bitner and Hubbert (1994)
determined that service encounter satisfaction was quite distinct from overall satisfaction and perceived quality.

Overall satisfaction measured in many studies as to the customer’s overall subjective post-consumption assessment judgment based on all encounters and experiences with a particular service provider. Perceptions of service quality affect feelings of satisfaction, which then affect loyalty and post-purchase behaviors (Anderson and Sullivan, 1993; Cronin and Taylor, 1992; Fornell, 1992; Oliver, 1980; Choi and Chu, 2001; Petrick and Backman, 2002; Tam, 2000).

Customer satisfaction acts as an antecedent and has mediating relationships with customer perceptions of service quality, customer satisfaction and post-purchase behavioral intentions (Rust and Oliver, 1994; Athanassopoulos, 2000; Baker & Crompton, 2000; Cronin et al., 2000; Oh, 1999; Petrick and Backman, 2002; Zeithaml et al., 1996). Theodorakis et al. (2014) while comparing three service evaluation models indicate that the indirect effects of customer satisfaction play an important mediating role in the relationships between service quality and intentions, and also between value perceptions and intentions.

Service quality directly and significantly influences satisfaction (Caruana et al., 2000; Baker and Crompton, 2000) or perceived value (Petrick and Backman, 2002; Zeithaml, 1988). Both satisfaction and perceived value are direct antecedents of behavioral intentions (Cronin et al., 2000; Petrick & Backman, 2002; Tam, 2000; McDougall & Levesque, 2000; Dodds et al., 1991). Zeithaml and Bitner (2000) explained satisfaction as when expectations are confirmed by perceived service then quality is found to be satisfactory. However, while quality
falls short of expectations, there is a greater effect on customer satisfaction than when quality exceeds satisfaction.

The conception that service quality and customer satisfaction are distinguishing variables has achieved some degree of consensus among researchers as per the study by Saha and Theingi (2009). The construct of service quality is evaluated by the actual service performance in terms of particular service attributes in the specific context; whereas satisfaction is measured by the customers’ overall service experiences (Oliver, 1993).

Customer satisfaction is found to be dependent on a variety of factors which include perceived service quality, customers’ mood, customers’ emotions, their level of social interactions, and other experience-specific individual factors (Rust and Oliver, 1994). Researchers have generally agreed on the conceptions that service quality and satisfaction are distinctive variables but their causal relationship is yet to be determined especially in the context of airline service consumption. As per the findings from Crompton and Love (1995), the two constructs vide service quality and satisfaction are likely to be positively correlated, but unlikely to be in a linear relationship.

2.12.1 Link between Service quality and satisfaction in airline context

Archana & Subha (2012) examined various dimensions which have a positive influence on service quality perceived by airline passengers and they have extracted dimensions that have the most and the least important effect on service quality in international air travel. Their results suggest that there are different factors of in-flight service quality that affect different classes of customers in air
travel. The major dimensions include services provided in-flight, in-flight digital service and various services endowed with back-office operations. It was revealed from their findings that these three dimensions are positively related to perceived service quality in international air travel and these dimensions are cuisines provided, seat comfort and safety, out of which the most important dimension is in-flight service quality. Personal entertainment is the most important dimension which is perceived by airline passengers in the in-flight digital service quality segment. Online ticket booking is found to be another important dimension in back-office operations.

Ott (1993) revealed that consumers did not perceive any difference from one carrier to another where as Saha and Theingi (2009) pointed out that the emergence of low cost airlines has raised concerns over the level of satisfaction of the passengers with the services provided by these low cost airlines. Ahmad Azmi et al. (2010) examined the underlying dimensions of service quality for low cost carrier to determine the relationships between the dimensions of service quality and passengers’ satisfaction on the airline services. ‘Caring and tangible’ was the most important dimension of service quality for low cost carriers, followed by ‘reliability’, ‘responsiveness’, ‘affordability’ and ‘visual-attractiveness’. Conversely ‘caring and tangible’ dimension only contribute significantly to the prediction of satisfaction on the services of low cost carriers. An imperative finding noted is that the service firm measure and monitor service quality and satisfaction with a view to influencing the behavioral intentions of their customers (Saha and Theingi, 2009).
Airline services, regardless of whether they are full service or low cost carriers, are made up of a very complex mix of intangibles (Gursoy et al., 2005). Customer satisfaction is determined by many intangible factors such as atmosphere and ambiance of the cabin, crews’ behavior (Fitzsimmons and Fitzsimmons, 1994). Most of the airline service quality literature suggests that airline passengers look at service quality as a multi-dimensional variable, which was upright with the study conducted by Parasuraman et al. (1988).

Caruana (2002), cited by Ahmad Azmi et al. (2010), measured passenger satisfaction using three items. These items were related to repetitive purchase intention, service loyalty and benefit-cost judgment. His result showed that low cost airlines pay attention to their tangible aspects as well as to passenger care to enhance the satisfaction level of their passengers. Two dimensions found to be unique only to the low cost carriers were ‘affordability’ and ‘visual-attractiveness’ which are referred as the “point-of-difference” that clearly differentiated the service of low cost carriers with those of full service airlines. Literature review postulates the importance of layout and design of the aircraft’s cabin, employee’s appearance, in-flight meals and refreshments, and even the air tickets should be developed in accordance to the expectations, wants or requirements specified by the target market of a particular airline.

Lu & Ling (2008) examined concepts of air service quality in terms of passenger background. Their study had given special emphasis to those from cross-strait areas based on the passenger perception data of Taiwan travelers and Mainland China travelers. The result shows significant differences between cross-
strait airlines, Taiwan and Mainland China travelers’ service attributes. Airline service quality, passenger satisfaction, and loyalty are found to be highly correlated (Proussaloglou and Koppelman, 1995; Lee and Cunningham, 1996).

Ruben Chumpitaz and Valerie Swaen (2003) examined service quality and brand loyalty relationships; which investigated the mediating effect of customer satisfaction. Findings from their study reveal the effect of mediation role of satisfaction in the relationships between service quality, consumer satisfaction and brand loyalty. Hence it indicate that service quality is an antecedent to satisfaction, and satisfaction has a positive influence on purchase intentions of passengers.

2.13 Perceived value and Re-buy intention

Passenger perceived value has recently received significant attention in the field of marketing strategy (Ulaga and Eggert, 2006). This is for the reason that it plays an important role in predicting purchase behavior (Chen and Dubinsky, 2003), attains sustainable competitive advantages (Khalifa, 2004; Lindgreen and Wynstra, 2005), and affects relationship management (Payne et al., 2001). According to Cowles et al., (2002) airline marketing research should pay special attention to the motivations or desired values behind consumers’ use of the airline full service carriers. In the present airline marketing environment, passengers can easily find alternatives, and therefore how to build long-term relationships presents a more difficult challenge for an airline operator. Perceived value contributes to the loyalty of an airline business by reducing a traveler’s necessity to seek alternative service providers (Anderson and Srinivasan, 2003). Passenger perceived value in the airline travel environment is of crucial importance. Hence it
is necessary to understand the role of passenger perceived value in airline buying behavior.

Perceived value can be summarized as a trade-off between perceived benefits and perceived costs (Lovelock, 2000). Research studies have suggested that perceived value may be a better predictor of repurchase intentions than either satisfaction or quality (Cronin et al., 2000; Oh, 2000). It is implicit from the literature that perceived value can be measured with a multidimensional scale (Sheth et al, 1991; Petrick and Backman, 2002).

Bolton and Drew (1991) indicated perceived value as a construct that goes beyond perceived service quality. It was shown in a pre-purchase situation; value perceptions exercise a direct influence on the re-purchase intention (Bolton and Drew, 1991). Service value has been identified as an antecedent to satisfaction and behavioral intentions (Dodds et al., 1991; McDougall and Levesque, 2000).

Yang, Hsieh, Li and Yang (2012), evaluated how service quality, airline image and customer perceived value affect the intentions of passengers of low cost carriers and found that service quality has a significant positive effect on customer value, airline image and behavioral intentions. Turner (2003) also highlighted the point that passengers travelling in a low cost carrier preferred fare as their principle reason for carrier choice, while passengers travelling on an incumbent carrier indicated flight timings as their premier reason.

Customer perceived service quality is also often viewed as a key antecedent to service loyalty (Dick and Basu, 1994). Bolton, Ruth and
Bhattacharya (2000) put forth the notion that customer satisfaction and perceived value depend on perceived quality, is central to the marketing literature (Kotler, 1996) moreover it appears prominently in the service quality literature (Parasuraman; Zeithaml and Berry, 1991), and also found in the relationship quality literature (Crosby; Evans and Cowles, 1990). Perceived quality (including the consistency and reliability with which it is delivered) constitutes the “core” of a product.

Kim, Kim, & Leong (2003) concluded in their study that changes to rules and benefits reduce the perceived value of the programme and threaten repeat purchase. Ching-Fu (2008, a) looked into the structural relationships between service quality, perceived value, passenger satisfaction and behavioral intentions in an airline service context.

According to airline officials (Centenary Celebration Conference of Indian Civil Aviation – Cochin 2011), each airline has different revenue model dictated by its marketing segment. Conventional marketing segments like Full Service Carrier (FSC) & Low Cost Carrier (LCC) has no difference in making yield per passenger. Instead of taking into consideration price aspects directly, the perceived value of passengers were taken as a variable in this study which reflects reasonability of price and value for money of the services and schemes offered by the full service carriers.
2.14 Role of brand image

A customer’s purchase intention is positively interrelated by customer’s brand preference. Brand equity then influence consumer preferences and purchase intentions, and eventually brand choice.

Passengers who have a favorable image of the airline consider particularly bad flight to be an exception to their impression of the airline as cited in Ostrowski et al. (1993). Yang et al. (2012) indicated that service quality has a significant positive effect on customer value, airline image and behavioral intentions, but that airline brand image does not itself significantly influence behavioral intentions. Dodds et al. (1991) found that an airline has the prospect of attracting new customers and build a positive corporate image through its physical and behavioral attributes, such as reputation, type of aircraft, variety of services, and business ideology as well as the impression of quality communicated by its staff interacting with its potential passengers.

Corporate image is found to be an important factor in an evaluation of a company (Fombrun, 1996), influencing customers’ perceptions of the services offered and the company. When consumers express a preference for one firm over others, or when they praise the firm or recommend it to others, they are becoming bonded to the firm (Park et al., 2004).

Service quality has a positive impact on customer value and airline image (Yang Keng-Chieh, et.al. 2012). Airline image has a positive impact on behavioral intentions separately from the effect of service quality on behavioral intentions. It
is also noted that airline image has limited effect on the intention to use LCC.

Elgin and Nedunchezhian (2012) who studied the effects of service quality on the perception of domestic airline image with special reference to frequent fliers at Trivandrum city in India pointed out that service dimensions have a definite influence on the perception of airline brand image among the domestic passengers in India.

Connor & Davidson (1997) cited by Elgin et al. (2012) indicate that a company with a good image is more likely to stand out in the market place because it draws both repeat customers and trial users.

Doyle and Wong (1998) originate that successful companies have a differential advantage in overall company reputation and communicate it as quality to their customers (Solomon, 1985). Often, they are able to command premium prices (Tepeci, 1999).

Gronroos (1984) explained quality as concept experienced by a customer, which is based on two dimensions – technical and functional and also indicated that the quality perception of consumer is moderated by the company image.

According to Cobb Walgren (1993) customer (passenger) based brand equity can be divided into consumer perception (e.g. brand awareness, brand associations, perceived quality) and passenger behavior (e.g. brand loyalty, willingness to pay a high price). They develop a framework for studying various antecedents and consequences of brand equity from the customer perspective
and suggest that consumers’ brand perceptions contribute to the meaning or value of a brand.

Paul S. Ross, in his article titled ‘Building Brand Value and Influence in the Airline Industry’ highlighted four principles building influence that determine the most successful focus for brands in every channel emphasizing on the grounds that brands are like people and most influential people always stand for something; and also indicated that people are far more likely to become loyal consumers and advocates of a brand if they get a chance to participate in its progress and have a sense of shared ownership. Thus, a favorable image may separate and distinguish the company from its competitors. Andreassen & Lindestad (1998) noted that corporate image has an impact on customer’s choice of company when service attributes are difficult to valuate. Zeithaml and Bitner (1996) also asserted that image can influence customers’ perceptions of the goods and services offered.

Ricardo Flores-Fillol (2007) compared the characteristic features of Low Cost and Full Service Carriers with respect to airline competition and network structure and provided some insights about the distinctive network choices characterizing each carrier type which may lead to the image factor.

2.15 Brand loyalty linkage with re-buy intention

The composite measure of repeat purchase and loyal attitude is an effective indicator to discriminate the loyal traveler (Pritchard and Howard; 1997). Repeat purchase intention is a consequent of brand image. A key mediating variable in explaining customer retention is the concept of brand loyalty. As defined by
Webster’s dictionary, loyalty is a faithful, unswerving allegiance. Strategists entertain customer loyalty as a cost-efficient means to retain and defend market share (Jarvis and Mayo, 1986; Rosenberg and Czepiel, 1983). Literature provides a two-dimensional matrix that identified four types of brand loyalty namely true loyalty, spurious loyalty, latent loyalty and low loyalty.

True understanding of loyalty considers both loyal attitude and behavior (Dick and Basu 1994). Day (1969), in his definition argued that in order to be ‘truly loyal’ the consumer must hold a favorable attitude toward the brand in addition to frequently purchasing it. In this context, “loyalty implies repeat purchasing based upon cognitive, affective, evaluative, and dispositional factors which are considered as the classic primary components of an attitude” (Jacoby 1971, p. 26). Thus it can be deduced that a truly loyal traveler would repeatedly purchase or use a particular travel service and possess a positive sense of attitudinal loyalty or adherence toward that service provider.

Loyalty may be an outcome of both a more favorable attitude towards a brand (as compared to alternatives) and repeat patronage as cited by Dick and Basu (1994). Use of both attitude and behavior in a loyalty definition substantially increases the predictive power of the construct (Day 1969), as each variable cross-validates the nature of a truly loyal relationship. This measurement approach has been applied and supported as a valuable tool for explaining patronage in leisure services (Backman and Crompton, 1991) and prove to be a valid way to understand frequent passenger’s behavior. Various customer attitudes affect the degree of loyalty exhibited by a customer (Dick and Basu 1994).
Pritchard and Howard (1993) suggested some key antecedents of consumers’ loyal behavior. One suggestion is perceived differences in travel service performance can affect a customer’s loyalty. Differences between travel services are studied on the basis of the superiority or quality of one offering compared to its competitive alternatives (Fick and Ritchie 1991). In this perspective, large inter brand differences in quality increase the tendency for consumers to be brand loyal (Douglas McConnell, 1968), whereas lower perceived differentiation among competitive offerings reduces the probability of loyalty forming.

Another attitudinal descriptor of loyalty is found to be satisfaction. Loyal consumers are thought to be more satisfied than less loyal and non loyal customers (Hawkins, Best, and Coney 1989). Satisfaction results when customers’ evaluation of a service meets or exceeds their expectations (Oliver 1980). When a service performs satisfactorily, it reinforces the traveler’s attitude and attachment (loyalty) to the service provider (Bitner 1990). These attitudinal features are surmised to differentiate a customer’s degree of loyalty (Dick and Basu 1994).

Literature review extracts the characteristic nature of loyal travelers as involved decision makers who perceive significant service quality differences and who are satisfied with their travel service experiences. More specifically, truly loyal travelers should (1) demonstrate higher levels of involvement, (2) perceive greater service differences, and (3) exhibit higher levels of satisfaction with their brand experience than other types of consumers (i.e. spurious, latent, and low).
Pritchard and Howard (1997) indicated that it is the attitudes which distinguish ‘true loyalty’ phenomenon and is consistent with theory (Dick and Basu 1994). Involved consumers perceived differences in service providers and were satisfied with their chosen provider. It was also reported that service quality differences were also thought to affect traveler loyalty. They also examined the effect of variation in loyalty by demographics as only age was found to be significantly different across the groups. This finding was consistent with previous work on the age of loyal patrons and repeat visitors (Gitelson and Crompton 1984; Selin et al. 1988).

Day’s (1969) composite definition of repeat purchase behavior and loyal attitude was found to be an effective way to distinguish and understand traveler service loyalty. Truly Loyal travelers tend to use their choice of service as a statement of social self-image or identity.

An attitude that differentiated true loyalty from other types of patronage was satisfaction. This suggests that companies want to develop true loyalty in their patrons can do so by delivering services that confirm or exceed travelers’ expectations (Oliver 1980; Bitner 1990).

Pritchard and Howard (1997) provide a very clear understanding on loyal attitude and behavior which provide a way for customer retention, however, this study has not explained the grounds that stimulate or inhibit these traits in travelers.
Study conducted by Smith in “defining customer loyalty” quoted many characteristics of loyal customers studied earlier as ‘loyal customers repeatedly purchase products or services and also recommend the company to others; they stick with a business over time (Prus & Brandt, 1995, cited by Ruth Smith), customers stay with you longer; buy more from you, more often.

Jones and Sasser (1995) remarked that “merely satisfying customers that have the freedom to make choices is not enough to keep them loyal” to the firm. Jacoby and Kyner (1973) argue that it is the commitment that distinguishes between loyalty and repeat purchase behavior. Thus a person who is committed towards a product/service has an attitude which is durable and impactful. In terms of commitment there would appear to be two types of commitment – affective and calculative commitment. Agee (2002) cited by Ruth Smith (2002) stated that ‘true loyalty is based on trust, a high degree of satisfaction and a strong value proposition’.

Prus and Brandt (1995) have described a ‘secure customer satisfaction index’ where they have taken three major components to measure loyalty:

1. Overall customer satisfaction
2. Likelihood of repeat business
3. Likelihood to recommend the company to others

The above described three components act as the core of a meaningful customer loyalty index.
Zeithaml, Berry and Parasuramen (1996) have integrated research findings
and subjective evidence, and identify the following manifestations of loyalty:

1. Expressing a preference for a company over others
2. Continuing to purchase from it
3. Increasing business with it in the future

Jai Shankar et al., (2000), cited by Ruth Smith, conceptualized customer
loyalty as both commitment to the relationship and other overt loyalty behaviors.
They described loyalty as a multidimensional construct that included repeat
patronage; self declared retention, price insensitivity, resistance to counter
opinion, and the possibility of spreading positive word of mouth.

Summarizing the components of customer loyalty within the literature that
there is no common definition of customer loyalty, it is predisposed to be in
conformity to the fact that loyal customers demonstrate the following behaviors
and attitudes.

1. Repeatedly purchase from the organization (preferring and choosing it to
   others)
2. Have a high level of satisfaction with the company
3. Will recommend the company to others
4. Will trust the company
5. Will be committed to the company
6. Spend proportionally more with that service provider than others i.e. share of
   the wallet.
Cunningham (1956) identified three likely definitions of brand loyalty as: 1) customers lost and gained over specific time periods, 2) time sequences of individual purchases, and 3) share of the market.

Day (1969) finds that the true brand loyal buyer is: conscious of a need to economize when buying, confident of their brand judgments, heavy buyer, and older housewife with smaller average household and is less influenced by day to day price fluctuations.

Rundle-Thiele, S. (2005) explored loyal quality indicators for assessing survey-based loyalty measures summarized and categorized more than 30 survey-based loyalty measures administered in previous academic surveys as complaining type of behavior, behavioral Intention, word of mouth, resistance to competing offers items, attitudinal loyalty items, behavioral loyalty items, propensity to be loyal items.

Benner (2009) developed relational approach to understanding antecedents of customer loyalty in the airline industry and reviewed measurement scales to operationalise various constructs related to loyalty.

Studies in brand loyalty has identified that although there are different outcomes from the research findings, there may be some relationship between loyalty and age, income, educational level and family commitments (Uncles and Ehrenberg, 1990, Snyder, 1991 cited by Ruth Smith).
Ching-Fu Chen, & Yu-Ying Chang (2008) in their study examined the relationship between brand equity and brand preference, and purchase intentions. Their findings indicate positive relationship between brand equity and brand preference and purchase intentions with a moderation effect of switching cost affecting the relationship between brand equity and purchase intentions. It was observed in this study that effect of brand equity on purchase intentions is not significant for passengers with low switching costs. Here there is a clear evidence that can be interlinked with the ‘low switching’ characteristic of airline passengers with the loyalty programme membership as this act as a high barrier reflecting high switching cost, which leads to a hypothesis that FFP attributes and its satisfaction can have a role in determining re-buy intentions which may also be mediated by brand image factor.

Uncles et al. (2003) empirically showed that loyalty in competitive re-purchase markets is shaped more by the passive acceptance of brands than by strongly held attitudes about these brands. When customers admire the brand and say preference for the company over others, it indicates that they are likely to increase the volume of their purchases (Zeithaml et al., 1996).

2.16 Interrelationship between trust and Re-buy intention

Moorman et al. (1993) defined trust as a willingness to rely on an exchange partner in whom one has confidence. Trust is identified as a central attribute for the initiation, formation, and maintenance of commercial relationships in different contexts (Harris & Goode, 2004). According to these lines, many authors have congregated empirical evidences supporting the influence of customer trust for a
firm on his loyalty to that company (Chaudhuri & Holbrook, 2001; Eriksson & Vaghult, 2000; Harris & Goode, 2004; Lau & Lee, 1999; Sirdeshmukh et al. 2002). It was assumed that customer loyalty programme are usually based on rewards of various kinds aimed at fostering consumer loyalty (Sharp & Sharp, 1997) and bringing about a change in consumers' buyer behavior (Uncles et al., 2003). So it can be understood that the effectiveness of this kind of tool will be subject to the customer's trust in the firm and, especially, in its willingness and capability to supply the advantages and incentives offered by the programme.

Various studies have asserted that the perception of service influences consumer loyalty as a result of its positive effect on trust in the company (Eisingerich & Bell, 2008; Harris & Goode, 2004). Thus, the customer's positive beliefs regarding the service offered reinforce her/his trust in the company and its activities.

Burgos et al. (2011) examined the impact of changes made to rules and benefits with frequent flyer programme, and analyzed how rewards influence repeat purchase intentions and the role of frequent flyer programme in customer initiation and retention. Furthermore, it was referred in their study quoted as ‘despite their popularity, reward programme do not often contribute to development of the customer’s affective commitment and return intention that are built upon customer trust.

Berry (2000) indicated the importance of trust in predicting satisfaction, as pointed out that a consumer who trusts in the brand will be satisfied and more willing to commit to it. On the other hand, the reverse relationship is also found
(Geyskens; 1999) as satisfaction to be an antecedent to trust. Yoon (2002) examined the correlation between satisfaction and trust and found that a significant correlation exist between the two variables. This relationship is hypothesized in this research.

2.17 Re-buy intention (RBI)

Fornell and Wernerfelt (1987) noted that the costs of customer retention are substantially less than those of customer acquisition. Brand loyalty produces positive word-of-mouth recommendation, and show greater resistance among loyal consumers to competitive strategies from rival suppliers (Oliver, 1999; Dick and Basu, 1994).

Dick and Basu (1994) focused on issues related to the measurement of loyalty construct and introduced a concept of ‘relative attitude’ as a means to provide better theoretical foundation to the loyalty construct. Relative attitude refers to “a favorable attitude that is high compared to potential alternatives” (Dick and Basu, 1994, p. 100). In their opinion, loyalty may be an outcome of both a more favorable attitude towards a brand (as compared to alternatives) and repeat patronage.

True loyalty implies a commitment towards a brand and not just repurchasing due to inertia (Bloemer and Kasper, 1995). It can be assumed that passengers who repurchase a brand due to inertia may be easily induced to switch brands when offered with a price discount, or a coupon. Hence a favorable relative attitude and not just repurchase is a prerequisite for loyalty. There exists a clear difference in repurchase intention and loyalty.
The relationship between customer satisfaction and brand loyalty is well established at both the “transaction-specific” level and the “overall” level (Oliver, 1999; Bitner and Hubbert, 1994). Research findings have offered strong evidence in this respect – demonstrating a definite positive relationship between customer satisfaction and behavioral intentions. Similarly, Anderson and Sullivan (1993) found that stated repurchase intentions are strongly related to stated satisfaction across product categories.

It is commonly believed that higher service quality can lead to a customer’s higher overall satisfaction and subsequently to positive behavioral intentions. The variables ‘intention to repurchase the same airline service’ and ‘willingness to recommend it’ has been used as indicators of post-purchase behavior in other areas of study (Bigne et al., 2001; Boulding et al., 1993; Cronin and Taylor, 1992). However, some studies have suggested that the measurement of consumer satisfaction should be used in conjunction with the measurement of perceived value. Hence it can be hypothesized that, service quality and satisfaction all appear to be good predictors of repurchase intentions.

Toncar et al. (2010) experimented the effect of price variation on service quality and their research results show that the degree to which consumers price expectations are met influences their evaluations of service quality. This was particularly true in the case of a price loss; when the actual price exceeds the expected price. However, when there is a price gain, consumer’s evaluations of service quality were not affected.
David Wessels (2006) points out the top ten factors that influence the re-purchase of an airline, which are scheduling convenience, safety, price, reservation convenience, non-stop flights, baggage-handling, connecting flight convenience, on-time arrival, check-in convenience and customer service. Gurjeet Kaur et al. (2012) in their study explored customer switching intentions through relationship marketing paradigm, they found in the model which revealed significant consequence of quality, satisfaction and trust on predicting switching barriers. Among these relationships, satisfaction emerged as the strongest factor which influenced switching barriers. So the antecedent role of quality, satisfaction and trust in the re-purchase intentions are indirectly recognized.

It has been already noted that the behavioral intention consists of two items – repurchase intention and recommendation intention (Cronin et al., 2000; Petrick & Backman, 2002; Tam, 2000; McDougall & Levesque, 2000; Dodds et al., 1991).

2.18 Chapter summary

It is clear from the above review of literature that there is a link between airline passengers’ satisfactions regarding performance of service quality attributes and frequent-flyer programme attributes and also its effect on re-buy intention. The degree of joint influence of these satisfaction levels on re-buying intentions are not yet researched elsewhere. It is also evident that previous studies are silent on explaining the differences in the level of influences ensuing from attribute-level performance dimensions of loyalty programme and service quality which connects satisfaction and re-buy intentions in a single conceptual model.
It is evident from the above literature that the re-buy Intentions of airline passengers can be viewed as a dependent variable, in which the antecedent role of satisfaction from service quality and frequent flyer (loyalty) programme attributes are to be conjectured as independent variables. The mediating role of trust, brand image and the effect of perceived value on re-buy intentions are to be explained jointly and also required to determine the relationship between these variables using a structural equation model.

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