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A Study on Determining Factors Influence Pricing Competitive for Airlines in Malaysia

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Abstract

The purpose of this study is to determine the factors influence pricing competitive dynamic airlines by passenger for the specific routes of Kuala Lumpur to Singapore between the Prime Carrier and Low-Cost Carrier. This research was derived in response of World's Busiest International Air Routes report from OAG Aviation Worldwide that shows more than 30,000 flights frequency in both directions for international route Kuala Lumpur to Singapore during 12 months in 2018. This study will be understanding the influence in pricing competitive between forecast on demand, and product quality. A framework model has been proposed to determine the factors on competitive airlines pricing in Malaysia and the variables are Market Segmentation, Product Quality and Demand Forecast. This research used a quantitative data collection method to gather or to prompt information from respondents, in this case passenger who is using flights from Kuala Lumpur to Singapore. A total of 424 passengers was sampled and the set of questionnaires were distributed using the non- probability sampling technique which is convenience sampling to obtain sample data to be analyzed. The analysis in this study was conducted using descriptive statistical analysis tools. – SPSS – version 23. Results from the multiple analysis demonstrate that product quality and demand forecast as factors influencing pricing competitive.

Keywords: Pricing Competitive, Market Segmentation, Product Quality, Demand Forecast.

Introduction

This study will determine the factors affecting airlines passenger's pricing competitive in purchasing airlines ticket between full service network carriers and low cost carriers while only focus on one point of sales from the busiest routing Kuala Lumpur to Singapore in Malaysia. Kuala Lumpur International Airport (KLIA) has been ranked by The OAG International Megahubs Index 2018 as number 12th in its Top 20 most connected airports worldwide while Singapore Changi Airport (SIN) ranks 8th overall, is the largest Megahubs in Asia Pacific are all located in South East Asia. There is a research review of Kuala Lumpur International Airport (KLIA) as a competitive South-East Asia hub stated due to its strategic location in the centre of South East Asia famous airport, Singapore Changi International Airport (SIN), Bangkok Suvarnabhumi International Airport (BKK) and Jakarta Soekarno-Hatta International Airport (CGK) (Bardai, et al. 2017). The top three places for the low-cost International Megahubs remain as they were in 2017, with Kuala Lumpur Airport (KUL) ranked in 1st place. Low-cost carrier AirAsia dominates

the airport with 40 percent of flight operations. – Ranked 2nd is Jakarta Airport (CGK) and in 3rd place is Singapore Changi Airport (SIN). At both airports the dominant airline is a legacy carrier indicating the strength of competition between prime legacy and low-cost budget airlines (The Megahubs International Index). This is one of the cause factor of war pricing competitiveness between the Full Service Network Carrier (prime carrier) and Low Cost Carrier (budget carrier) in airlines industry in Malaysia as stated by O’Connell and Williams (2005), low cost airlines have intensified the direct competition with full service airlines, particularly during the weak economic situation in 2008 and 2009. Today’s air transport is a demanding and competitive business, where margins are tight and is usual that some airlines record losses of millions (Cento, 2008).



Figure 1: World’s Busiest International Air Routes

A uniqueness in the aviation industry is that this industry's capabilities captures the attention of the wide consumer because of its glamorous and ability to impact on the large and growing numbers of consumers worldwide (Chan, 2000). From the report determine by OAG Aviation in Figure 1, which shows that air routes between Kuala Lumpur and Singapore are the busiest routes in the world with 30,537 trips between the two airports in the year to February 2018. This is means that average of 84 flights per day plied in this route. Kuala Lumpur to Singapore overtook the previous dominated Asian destination route, Hong Kong to Taipei (Air Travel Industry Reports – OAG). For the operating carrier, there are two different key player in this route. A host of low cost carriers such as budget airlines Scoot, Jetstar, Air Asia and hybrid airlines, Malindo Air to compete with the two countries' flagship carriers, Malaysia Airlines and Singapore Airlines. This airlines legacy also knowns as Full Service Network Carrier or prime carrier. Knowing that Kuala Lumpur to Singapore as the busiest route, counting on the flying visit through the numbers of 30,537 flights between the two airports in the year to February 2018. To be specific, data provided as 4 million people flying on those flights which is only 65minutes typical flight time, is the main reason to focus into the pricing competitive between budget carriers and prime carriers. This need to justify what is the gap occurs when airlines is deciding to promote their product with valuable price according to maximize their revenue and profit growth.

Looking into airline revenue management, an action in pricing setting and managing yield through inventory to optimize total revenue while inventory is just one input to the final price presented to a customer. To realize the potential of total revenue management, airlines must adopt a bundled model that considers not only ticket price but also the probability that passengers will purchase other products and services from the airline before, during, and after their journey. Therefore, to get an access on reviewing the best offer, airlines passenger will often use travel booking sites for price comparisons before the actual purchase via Computer Reservations System (CRS). A computer reservation system is used for the reservations of a particular airline and interfaces with a global distribution system (GDS) which supports travel agencies and other distribution channels in making reservations for most major airlines in a single system. Airline industry observers have generally assumed that the demand for airline travel is price elastic as per research regarding price discrimination involves selling different units of output at different prices. (Varian, 1996). Indeed, one of the primary benefits expected with airline deregulation was a fall in the fare level and increased passenger traffic were regulatory real time price and service restrictions removed. Pricing in the airline industry is known to be very complex, resulting in substantial and well-documented price dispersion (Gerardi and Shapiro, 2009). Deneckere and Peck (2012) point out that airline industry belongs to a rather wide class of markets, in which good is offered for sale for a limited length of time, capacity is set in advance, and aggregate demand is uncertain. The phenomenon of the world growth in low-cost airlines has resulted in putting their focus on pricing strategies, issues of cost recovery and their impact on the traffic and market shares of legacy carriers or other low-cost carriers when they are competing, either directly or at adjacent airports (Pitfield, 2008).

Objectives

The objective of this study is to discover the factors that determine the airlines pricing competitive between prime carriers and budget carriers for route Kuala Lumpur (KUL) to Singapore (SIN) in Malaysia. Hence, this study will fulfill the three objectives below:

1. To investigate market segmentation among passenger who purchase the airfares tickets.
2. To identify significant factors that influence pricing competitive from Kuala Lumpur (KUL) to Singapore (SIN).
3. To determine most dominant factors that influence pricing competitive from Kuala Lumpur (KUL) to Singapore (SIN).

Scope

The scope of this research is to determine the variable that affect pricing competitive among prime carriers and low costs carriers for the airfares ticket passenger acceptance level intention from KUL to SIN route in Malaysia. The research focuses on market segmentation and product quality in order for airlines to apply dynamic pricing elasticity.

Methodology

Sample

From demand perspective, which is related to such factors as the number of air passengers in a region and their requirements to travel, the measurements of socioeconomic activities that support travel that is related to the availability of service with infrastructure. Consumer drive the market under perfect competition as per quote in customer sovereignty theory. According to Smith (1995) who is developed the consumer sovereignty test (CST) which measures this theory by looking at three factors; consumer capability to make rational decision, availability and quality of the information and choice to swing the competitors from airlines perspective. In this

study all of almost 1 million airlines consumer influences should ideally take into the consideration while examine on the forecasting strategy.

Sampling Size

N	S	N	S	N	S	N	S	N	S
10	10	100	80	290	162	900	260	2800	338
15	14	110	86	290	165	950	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

Note: N is Population Size; S is Sample Size
Source: Krejcie & Morgan, 1970

Figure 2 Table for Determining Sample Size from a Given Population

The bigger sampling size which is more than 300 sample will produce more reliable results as per research done by Black, Babin, and Anderson (2010). Also referring to Krejcie and Morgan (1970) about small sample techniques as Figure 2 mention that the growing demand for research has created a need for efficient methods of determining the sample size needed to represent a given population. In this study, the target population for this survey will look into various type of passenger that travel to Singapore using all the various airlines operating the departure from Kuala Lumpur International Airport. The expected passenger who is using this route is more than one million per year.

According to Krejcie and Morgan (1970), for a population of 1,000,000 passenger at least require 384 sample survey. However, according to Hager (2006), the criteria for priori analysis should be minimum of 0.80 of power, and effect size of 0.15. In this research, the effect size of 0.15 is used with the margin error = 5%, the power of $(1-\beta) = 95\%$ and 5 number of predictors according to the proposed framework. The sample size of this research is determined by using power analysis. These calculations are based on the sample size formula and an online calculator (Qualtrics, 2018). Taking the safe and reliable consideration from Krejcie and Morgan (1970), population sample of 384 should be taken as minimum sample. Since there will be errors predict on the output while completing this questionnaire (e.g. missing values, unclear response, and non-response) there will be total of 500 questionnaires will be given to the eligible survey respondents. The results show that from the 500 surveys questionnaire distribution to

respondents and the outcome respondents from the survey answers is 424 feedback which is exceeded the sample size of 384 respondent.

Sampling Technique

The sample is part of the population representing the whole population. Researchers often use samples as representatives for the entire population and to reduce the amount of data that needs to be collected. There are two types of sampling techniques which are probability and non-probability. For the non-probability sample can be categorized into three groups; simple, purposive, and snowballs. For this study, non-probability has been chosen because the respondents were anonymous. In the non-probability sampling, simple sampling and purposive sampling techniques were used to find respondents to fill out a questionnaire. Most researchers has their own limitation criteria by time, money and workforce, hence it is almost impossible to randomly try out the entire population which is the benefit on the researcher to choose the technique of non-probability.

For the non-probability sampling is the benefit of researcher since the background working is in airlines industry and beside, the topic is general due to anonymous travelling passenger that using air carriers to go to Singapore. The option to collect the respondent survey at Kuala Lumpur Airport is required since the study is about airlines passenger's intention in purchasing airlines ticket to Singapore.

They are various method of data collection to support the researcher methodology such as oral interviews, written questionnaires and online surveys, case observations, focus groups, of ethnographies, story about history from documents, records and case studies analysis. In this research, the data were collected through primary data and method for data collection used is solely on the survey where a set of questionnaires has been prepared for distribution. The nature of research will recommend on the method employed as well as time constraint and fund that available for this study. Quantitative method is perfect to examine replication research with different study context and useful in collecting data and to test predictions (Saunders, 2011).

The survey covered the general populations of airlines passengers in Kuala Lumpur International Airports between 03 November 2019 until 03 December 2019, but the data collection mainly is done in Kuala Lumpur International Airports on 10 November 2019 and a few using online survey via social media within the timeline given. The respondents were approached by asking whether they had been to Singapore using air carriers before. If the targeted respondents had flew to Singapore before, so they will be asked would they willing to answer the questionnaire regarding their intention to purchase the airfares tickets. Once they agree, a set of hard copy questionnaires was given to them to answer on the spot. The questionnaires were then collected once they finished answering all the questions. Within the same timeframe, the researcher also asked help from some working peers to pass around the questionnaires to their colleagues to get the opinion from a different range of people in various working background and lifestyle.

Measurement

Usually, researcher would prefer to developed questionnaire consists of demographic variables which known as classification questionnaires. Most of the respondents will only allocate their time to answer the questionnaire which the questions are easy to understand and, they can quickly provide the answers, Cooper and Schindler (2008). All questions used for this research with fixed choices and set as often closed-ended questions due to different passenger background as for market segmentation and demand of purchasing the airfares will group the

respondents and help to examine whether there is any different opinion regarding the airlines passengers. The questions in demographic variables included the respondents' gender, age, ethnicity, monthly income, occupation, the frequency of purchase of organic food and their purpose of purchase.

Scale

According to Piaw (2006), in variable measurement scale, the lowest level is where the options could not be arranged in ascending order and could not be ranked. The nominal scale for this study including gender, ethnicity, occupation and the purpose of purchase. The ordinal scale used in this study include the respondents' age, monthly income, and frequency of purchase. In below table will show the different of nominal and ordinal scale.

Results

Table 2 Distribution of Respondents on Gender

Gender	Frequency (f)	Percentage (%)
Female	251	59.2
Male	173	40.8
Total	424	100.0

Table 2, shows the demographic data on gender for distribution of the respondents. Researcher found the total of 424 respondents or 100% composed of female is 251 respondents or 59.2% of respondents and 173 respondents or 40.8% of the respondents were male. The highest percentage of data in the distribution of the respondent by gender from female compared with male.

Distribution

Table 3 Distribution of Respondents on Age

Age	Frequency (f)	Percentage (%)
Below 25 years	11	2.6
26 -35 years	194	45.8
36 - 45 years	117	27.6
46 – 55 years	72	17.0
More than 56 years	30	7.1
Total	424	100.0

Table 3, shows the demographic data based on the age distribution of respondents that researcher found the number of respondents who had the highest percentages is among the age 26 - 35 years old with 194 respondents or 45.8%. Thus, the second highest number of respondents age 36 - 45 years with 117 respondents or 27.6% respondents. Moreover, the age distributions of respondents of respondents 46 - 55 years are 72 respondents or 17%. Finally, the lowest age distributions are below 25 years which is 11 respondents or 2.6% of the respondents consisting of young people.

Table 4 Distribution of Respondents on Nationality

Nationality	Frequency (f)	Percentage (%)
Malaysian	379	89.4
Singaporean	6	1.4
Other	39	9.2
Total	424	100.0

Table 4, shows the demographic data based on the nationality distribution of respondents that researcher found the number of respondents who had the highest percentages is Malaysian, 379 194 respondents or 89.4%. Thus, the second highest number of respondents' others nationality with 39 respondents or 9.2% respondents. Finally, the lowest nationality distributions are Singaporean which is 6 respondents or 1.4% of the respondents.

Table 5. Distribution of Respondents on Education

Education	Frequency (f)	Percentage (%)
PhD	5	1.2
Masters	144	34.0
Degree	218	51.4
Diploma	54	12.7
Other	3	0.7
Total	424	100.0

According to table 5, shown the distributions of the number of respondents for the whole all of the 424 passengers who have different education. A total of 218 respondents or 51.4% have degree holder and the second highest 144 respondents or 34.0 % have Master.

Table 6. Distribute Respondents on Income

Income	Frequency (f)	Percentage (%)
Below RM2000	34	8.0
RM2001 – RM4000	104	24.5
RM4001 – RM10000	175	41.3
Above RM10000	111	26.2
Total	424	100.0

Based on the table 6 the income distribution, 41.3% (175 respondent) are income in range RM4001 – RM10000. Next, the second highest is 111 respondent or 26.2% are income in range above RM10000, follow by RM2001 – RM4000 (104 respondents, 24.5%) and finally, 34 respondents (8.0%) are income below than RM2000.

Table 7 Distribute of Respondents on Employment Status

Income	Frequency (f)	Percentage (%)
Student	37	8.7
Employed	308	72.6
Self-employed	56	13.2
Retired	8	1.9
Not employed	15	3.5
Total	424	100.0

Table 7, shows employment status of 424 respondents. The highest category employment status is employed (308 respondents, 72.6%). The second highest is self- employed with the number 56 respondents or 13.2% and lowest employment status is retired with the total number only 8 respondents or 1.9%. Testing the assumption is very essential of multiple regression analysis. The assumptions include multicollinearity, outliers, normality, as details below. The easiest way to detect collinearity is to examine the correlation matrix for the independent variables. The correlation of 0.85 and higher indicates substantial collinearity (Hair, et al. 2010). Thus, table 8 indicate that the correlation between independent variables under 0.85.

Table 8 Correlation Matrix

Product Quality	Demand forecast	Pricing Competitive
Product Quality	-	

Demand Forecast	.336	-
Pricing Competitive	.361	.625

Table 8, above shows that characteristic, competence, time and academic variable correlate between values 0.361 to 0.625. From this result, the correlation among the variable is below than 0.85 and no redundant between variables. Pallant (2011) said that the presence of outliers can be detected from Scatterplot. Outliers are a cases that have a standardized residual (as displayed in the scatterplot) or more than 3.3 or less than -3.3 (Tabachnick and Fidell, 2007). Figure 2, illustrates the scatterplot of residuals with independent variables and the values are between -3 and 2, that is mean the there are no extreme values outliers and is suitable for multiple linear regression operations on the data.

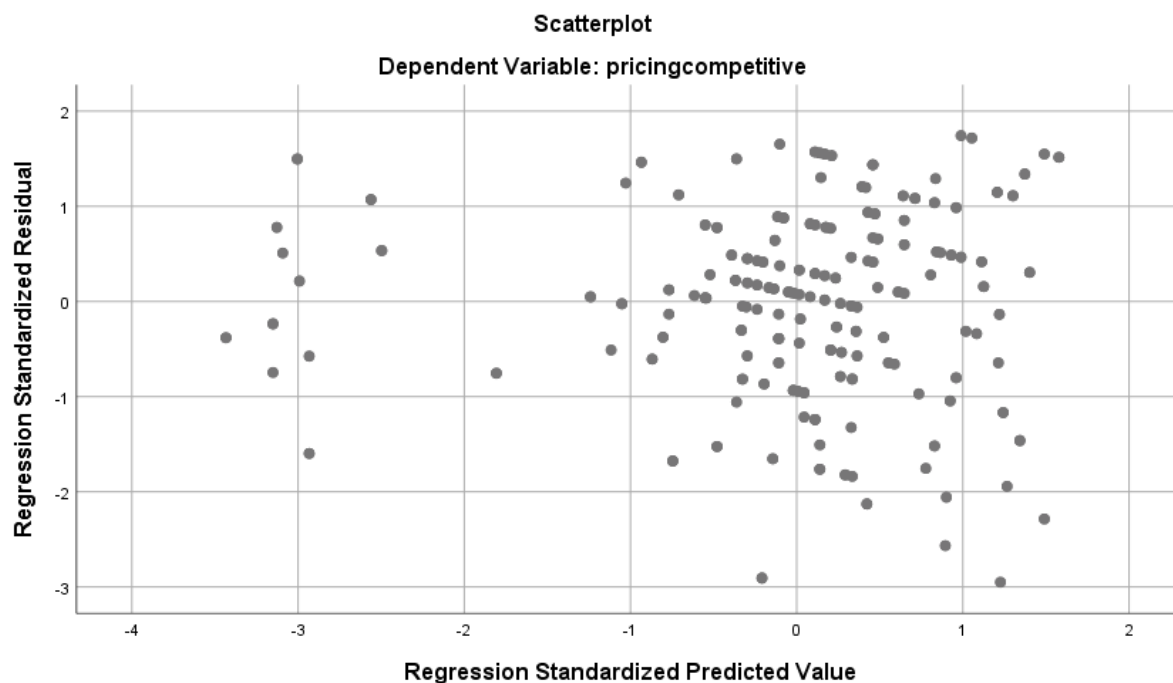


Figure 3: Scatterplot

Normality indicates the assumption that every single variable and all linear combinations of the variables correspond to a normal distribution (Tabachnick and Fidell, 2007). In addition, the normality test is represented by the bell-shaped curve (Hair, Hult, Ringle and Sarstedt, 2014). Even though, the normality test is not necessary for every variable, the results are better if the data is normally distributed. In this study, the normality test was measured using the skewness and kurtosis value. Skewness is to determine the extent to which variable’s distribution is symmetrical, while kurtosis evaluates the peak of variable’s distribution (Hair et al., 2014). The rule of thumb for normal distribution is when a skewness is less than 3 and a kurtosis is not more than 10 (Kline, 2016). Based on the results of normality test the skewness value did not exceed 3.0 and the kurtosis value aware not more than 10. This can be concluded that the data is normally distributed.

Discussion

Market segmentation has been tested and it is supported with several factors that influence the decision of the airline's pricing among passenger who purchase the airfares tickets. In this study, the main focus is on the busiest and the shortest international routes. If there are multiple airlines flying between the two cities, the airline will need to keep their prices competitive. In other words, passengers are the key segmentation of factor for airlines determining their fares. Behavioral segmentation is defined as the segmentation of the market according to individual purchase behaviors. Doing this allows the adjustment of its level, where companies can segment customers into groups known by location, demographics and intention of travelling. Product Quality influence significantly pricing competitive is supported and this indicate that maximizing total revenue for an airline is depends on associating the amount of customer spending data with that customer's profile within the airline's system. The findings in showed that there was a significant relationship product quality and pricing competitive ($r = 0.361$, $p < 0.01$). The Pearson Correlation was weak ($r = 0.361$) as described by Davis (1971). It shows that there is a significant relationship between product quality and pricing competitive.

By linking the number of frequent-flyer passengers for all purchases made before, during, and after the flight, for example, the company can precisely calculate the benefits and possibilities that passengers will be able to buy products. This detailed information can then be used to offer personalized discounts on basic fares. The findings showed that there was a significant relationship between demand forecast and pricing competitive ($r = .625$, $p < 0.01$). The Pearson Correlation was medium ($r = 0.625$) as described by Davis (1971). It shows that the hypothesis is accepted between demand forecast and pricing competitive among customer airlines.

Conclusion

From this research, product quality and demand forecast have control the airlines pricing competitive among the passenger market segmentation. Pricing elasticity in airlines is determine by the factors attached with reasonable competitive pricing. Some passenger loses the chance to make a successful purchase for the lowest fares and decided to target the fares with other airlines. The outcome when passenger decided to wait for the lowest fares will only effect the airlines loses the opportunity to receive sales from those ticket purchases. Based on previous and current studies, strategies can be developed to encourage airlines to expand into new markets while discouraging their focus on local markets. The importance of understanding how passengers make decisions is outlined in this paper and detailed insights about the methods involved in the analysis. The countless details of internal and external factors that frequently develop the aviation industry and impact various stakeholders have been explored in this paper and it seems that airlines companies today more than ever have to be very responsive to change. Product quality assortments replicate the analysis of how quickly the competitive advantage can be lost if new opportunities are not reflected or products are not improved and redefined. The need to create an understanding of the passenger's decision- making process becomes evident when analyzing the behavior of passengers who are sensitive to change. In other words, this study would be able to assist airlines to understand the customer buying criteria, the value proposition of the airline service to the customers and finally assist them to position their airline services based on sector analysis.

In essence, airlines should explore their policy on network revenue management to include the sector length of the flights as part of the pricing calculations. And to further engage customers by forming focus groups and segmenting them based on demographic and purchasing power in order to further evaluate on the effectiveness of their policy on pricing.

Limitations

Competitive prices only work when the products sold by different companies for the same customers are initially the same. On the other hand, if the product is only partly the same and not exactly identical, then the price is not transferred from one product to another. Hence, further justification details need to be provided to support the final decision variable. Due to time constraint in completing this study, all the respondents were required to answer a set of questions in a specific time frame. This might lead to the change of their and preference over time and may provide a different result if another research done at another time frame. Therefore, we decided to focus on respondent who also the airlines passenger from Kuala Lumpur to Singapore.

Future Studies

This study focuses on short international flight below 4 hours, it is thus recommended that future studies to concentrate on international flights more than 4 hours. As this could further validate and explore the characteristics of particular segments of passenger markets in choosing their carrier of choice. Other studies should also concentrate on further segmenting the passenger markets with the outcome of understanding the passengers purchasing styles and could assist airlines in offering the right services that the customers are willing to pay for and thus increasing the value of the service purchase.

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