

# **A Study of Online Perceived Value in Vietnamese Low Cost Carriers Market**

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## **Abstract**

For the first time in over 30 years, Vietnam Airlines – the biggest airline in Vietnam – announces they still have plenty tickets left for people travelling before and after Lunar New Year 2013, thanks to the fierce competition from low cost carriers (LCCs) such as Vietjet Air, Jetstar Pacific and Mekong Air. The emergence of low cost carriers and the popularity of Internet in Vietnam have dramatically changed how Vietnamese travel nowadays. This study examines online service attributes that determine the perceived value of online transactions. In doing so, we address the concerns that LCCs have in matching expectations and perceptions of Vietnamese consumers towards online flight ticket purchases. The result from study found that some of the antecedents are very different to previous findings in other markets. Therefore the findings have implications for managerial decision makers in low cost carriers charged with the responsibility of increasing perceived value of their service through online consumer engagement.

## **Introduction and Background**

Since 2008, the global airline industry has been hit hard by the financial crisis (Goetz and Vowels, 2009). While full service airlines have struggled to be financially viable in this lean global environment low cost carriers have successfully driven down their cost base and continue to lower their prices. As a result, consumers start switching to low cost carriers for their travelling needs. And by doing so, consumers forego value-added services provided by full service carriers such as complementary on-board meals, in-flight entertainment and airline lounge services (Mathews, 2004). Moreover, consumers also prefer using the internet to search for information, compare prices and purchase air tickets rather than using a phone or travel agent (Goh, 2005).

The emergence of LCCs such as Tiger Airways, Jetstar Pacific, Indochine Airline and Vietjet Air in Vietnam has changed the value proposition experienced by consumers when searching, purchasing, and travelling on an airline. Given the high level of internet connectivity in Vietnam, almost 31 million users – about 35% of the population (World Bank Report, 2012), LCCs have particularly focussed upon leveraging the online channel to establish a leaner distribution channel for their services. Online delivery includes reservations and payment, and achieving operational and sales efficiencies (e.g. online check-in, meal preferences, seat allocation, baggage limit). Given the dramatic changes in how online delivery is contributing to the overall value experienced by Vietnamese LCC passengers an investigation is warranted to explore the success, or otherwise, that online delivery has in value creation. Consequently, this study tests a series of hypotheses focussed on exploring how value is constructed by passengers utilising LCC online services.

## **Literature Review**

### *Low Cost Carriers*

Deregulation in the commercial aviation industry in the early 2000s saw the emergence of the Low Cost Carrier (LCC). The market share of LCCs have grown to such an extent that they now play an important role in shaping the dynamics of travel and tourism in the Asian region (Lawton and Solomko, 2005). With the anticipated gradual removal of restrictions in the Asia Pacific aviation market by 2015, all LCCs in the region are focussed upon sustaining competitiveness through ensuring they fulfill the needs of their customers.

Currently, the LCCs in South East Asia have similar pricing, cost structures and business models as the well-established LCCs in United States and Europe. These similarities include aircraft type, fast turnaround time, no-frills service and bookings made in advance (Mathews, 2004). The growth of LCCs has revealed that the adoption of no-frills and low-fare alternatives in the price-sensitive market can successfully enable the LCCs to compete with full service carriers (Park *et al.*, 2004). To maintain a competitive advantage, LCCs in Vietnam must continue to innovate with their business model to achieve operational efficiencies that create value for both the passenger and the airline's shareholders.

### *Perceived Online Value*

Zeithaml (1988) defines value as the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. In other words, perceived value may be conceptualised as the result of a customer's trade off between a quality perception and the monetary and non-monetary sacrifices they experience in the decision making and consumption process (Bolton and Drew, 1991).

In an e-commerce context, the consideration of online perceived value is gaining in strategic prominence due to an awareness that consumers increasingly compare product features and prices online. According to Bakos (1991) consumers are drawn to online channels due to lower search costs and more competitive prices. The provision of effective search and browse methods that assist customers finding items of interest quickly and allow them to maximise their search activities are considered mechanisms that will enhance the perception of value (Cheng *et al.*, 2008).

### *E-Service Quality and Value Creation*

E-service quality is the extent to which a web site facilitates efficient and effective shopping, purchasing and delivery of products and services (Zeithaml *et al.*, 2002). Oliveira *et al.* (2002) suggest that e-service quality leads to value creation and competitive advantage. In order to create value for customers, online retailers need to identify the attributes utilised by online customers in their assessment of e-commerce quality (Allred *et al.*, 2006).

Cristobal *et al.* (2007) noted that the various studies of e-service quality can be divided into online retailing services, and web page quality. They critique many previous studies for not taking a more

global perspective of e-service quality, concurrently considering both web site quality components and their effects. Parasuraman *et al.* (2005) similarly note the need to develop an e-service quality measure that encompasses both site and inter-personal interaction components. Accordingly, they embarked on an extensive scale development process and crafted the e-S-QUAL and the e-RecS-QUAL scales (Zeithaml *et al.*, 2005), to measure the quality of service delivery of web sites. The following are the seven variables utilised in their instrument to capture the quality of the e-service encounter: Efficiency (Zeithaml, 2002), Fulfilment (Parasuraman *et al.*, 2005), System availability (Parasuraman *et al.*, 2005), Privacy (Parasuraman *et al.*, 2005; Ratnasingham, 1998; Chellappa, 2000), Responsiveness (Zeithaml *et al.*, 2005), Compensation (Parasuraman *et al.*, 2005), Contact (Parasuraman *et al.*, 2005). The first four dimensions are said to constitute “core” quality (E-S-QUAL scale), whereas the last three were said to constitute “recovery” quality (E-RecS-QUAL scale).

Despite the comprehensiveness of the E-S-QUAL and E-RecS-QUAL scales, Bressolles and Nantel (2008) critic the scales for not focusing sufficiently on site quality but rather the e-service inherent in navigation. This criticism is noted, however, the purpose of this study is to explore the role of LCC websites in value creation when consumers engage in online ticket purchasing. From a consumers’ perspective, the official LCCs web sites should be easy to navigate, able to provide concise content, well-organised, speedy in loading pages, easy to understand and enable the customers to complete transactions quickly. Bressolles and Nantel (2008) posit that for customers seeking information, ease of site use will be accentuated, while Long and McMellon (2004) also emphasize ease of navigation and efficiency as critical elements in determining online service quality. A utilitarian focus on navigation was therefore our main focus in order to minimize the dimensions measured and accordingly avoid participant weariness. For the purpose of this study we have therefore focused upon the dimensions of Efficiency, System Availability, Fulfillment and Privacy. In addition, the price dimension is added as pricing was viewed by the researchers as an important component of the value proposition for the online ticketing services for no-frills airlines. We therefore propose the following hypothesis:

*H1: Efficiency of the web site will significantly influence the consumer’s online perceived value.*

System availability refers to a consumer’s ability to purchase a product or service from anywhere in the world through a specific online web site (Parasuraman *et al.*, 2005). As Zailani *et al.* (2008) suggest, the online service providers must be equipped with sufficient server power and network capacity to support web site traffic. The following hypothesis is therefore proposed:

*H2: Availability of the web site system will significantly influence the consumer’s online perceived value.*

Delivery fulfillment measures a company’s accuracy in product and service delivery and its willingness to deliver the product and services within the promised time. The perceived value of online ticket customers will deteriorate if their e-tickets are taking too long to be sent to customers after the transaction is confirmed. The following hypothesis is therefore proposed:

*H3: Fulfillment of the service promised during the purchase from the web site will significantly influence the consumer's online perceived value.*

Ratnasingham (1998) articulates that the emergence of privacy aspect is to ensure customers' personal data collected from the electronic transactions are protected from unauthorised users, whilst other scholars (Yoo and Donthu, 2001; Santos, 2003; Wolfinbarger and Gilly, 2003) confirm that privacy is the essential attribute of online service quality. We therefore propose the following hypothesis:

*H4: Web site privacy will significantly influence the consumer's online perceived value.*

Andreassen and Lindestand (1998) emphasize that since online service is intangible, consumers would find it difficult to evaluate the different alternatives. As a result, the customer has to pay more attention to the external signs of quality such as price to make decision. Several researchers (Blattberg and Neslin, 1990; Dodson *et al.*, 1978) suggest that consistent price promotions and discounts are likely to give negative influences on perceptions of quality. In light of these findings, we propose the following hypothesis:

*H5: Pricing of online ticket will significantly influence the consumer's online perceived value.*

## **Methodology**

This study used a sample of 370 respondents. The sample was sourced through online survey invitations via major Internet forums in Vietnam. All participants were screened to ensure that they had purchased LCCs air tickets at least once in the last 12 months. This data collection method was adopted because it made sure all participants are technoenabled the researchers to collect responses cost effectively and within a short period of time (Bush and Hair, 1985; Sekaran, 2003).

37% of the respondents were aged range 31-40 years followed by respondents who aged 21-30 years (31%), 41-50 years (12%), 51-60 years (11%), respondents below 21 years old (7%) and respondents who aged more than 60 years old (2%). 60% of the respondents were males. The majority of the respondents were young and in the middle income group. Many of the respondents are from Generation X, Y and the new millennial groups. They were information technology savvy and highly reliant on internet technology.

## **Results**

Regression analysis was used to estimate the single dependent continuous variable, perceived value, from the previously identified group of independent variables (refer tables 1 and 2). Both linear and multiple regression analysis were utilised. We also used the Cronbach's Alpha Coefficient to investigate the reliability of all variables in the scale. The overall Cronbach's Alpha Coefficient was 0.835. As the Cronbach's Alpha Coefficient should ideally be above 0.7, the resulting scales are therefore considered acceptable and sufficiently reliable.

**Table 1: Results of Regression Analysis**

		Perceived Value	Efficiency	System Availability	Fulfillment	Privacy	Price
<b>Pearson Correlation</b>	Perceived Value	1.000	.632	.062	.614	-.137	.487
	Efficiency	.632	1.000	-.010	.619	-.130	.458
	System Availability	.062	-.10	1.000	.006	.060	.150
	Fulfillment	.614	.619	.006	1.000	-.117	.391
	Privacy	-.137	-.130	.060	-.117	1.000	-.100
	Price	.487	.458	.150	.391	-.100	1.000
<b>Sig (1-tailed)</b>	Perceived Value	.	.000	.174	.000	.019	.000
	Efficiency	.000	.	.440	.000	.024	.000
	System Availability	.174	.440	.	.466	.181	.012
	Fulfillment	.000	.000	.466	.	.038	.000
	Privacy	.019	.024	.181	.038	.	.066
	Price	.000	.000	.012	.000	.066	.

**Table 2: Summary of Model Fit**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.717	.514	.504	1.56513

*Predictors: (Constant), Price, Privacy, SystemAvailability, Fulfillment, Efficiency*

*Dependent Variable: Perceived Value*

## Discussion

In recent years, marketing research has begun to pay attention to the importance of the online perceived value, especially in LCCs. This study continues to expand the field by looking at how purchasing a ticket online impacts upon consumer perceptions of value. From the data analysis presented above, we found support for hypotheses H1, H3, and H5. Namely, there is support for website efficiency, service fulfillment, and pricing positively influencing consumer value perceptions. However, hypotheses H2 and H4, exploring system availability and privacy's influence upon value creation, were not supported. These results reveal that consumers of Vietnamese LCCs online tickets do not place a high level of importance on the system availability and privacy as their online service quality perceptions. We consider that the significance of system availability of online ticketing systems is weak mainly due to the level of tolerance of price-sensitive consumers. This may explain the reason for customer willingness to re-visit or wait for the web site to be live again to perform online ticketing transactions.

According to Lovelock and Wright (1999), the zone of tolerance provides a range within which customers are willing to accept variation in service quality. Service performance that is above the minimum tolerable level will still ensure customer satisfaction. If customers have relatively large zone of tolerance, customers may tolerate a greater range of service quality (Kettinger and Lee, 2005). The growing Vietnamese middle class is also relatively price sensitive compared to their Western peers. To some extent consumers will tolerate a delay in system availability as long as they eventually get a bargain. There is also a cultural element within the psyche of Vietnamese

consumers which drives the pursuit of a bargain. This can be explained by the Long Term Orientation (Hofstede, 1980), and consequent emphasis upon thrift, evidenced within Vietnamese society.

As Vietnam is a developing country, consumers are still used to disruptions and delays in internet transmission, they do not put the blame to the airline. Whereas the absence of concern for privacy in a consumer value assessment can be explained by the absence of comprehensive privacy legislation, and awareness thereof, within Vietnam.

The major contribution of this paper is to provide a clearer understanding of the factors important to Vietnamese consumers during the consumer choice process of purchasing flight tickets online. Vietnamese consumers' perception of online value is greatly influenced by LCCs' ability to fulfill service promises. This is in line with findings by Bitner (1995) and Gronroos (1990). The findings have important managerial implications for managers of LCCs who need to make their online service promises realistic, relevant, and deliverable. An additional managerial implication relates to LCCs pricing of flight tickets which were found to influence online perceived value. Pricing strategy does not only influence an LCCs ability to generate profit (Jain and Kannan, 2002) but was also found to have a direct effect on a service providers' customer retention strategy (Chellappa and Kumar, 2005).

### **Limitations**

There are many limitations in this study. The major limitation comes from method of data collection. Although online survey provides a quick and easy access to consumers who have purchased LCC tickets using the Internet, it has some major drawbacks. The reliability of online survey as a research tool has been constantly questioned by several scholars. The sample did not represent the broader Vietnamese population in terms of gender, age, income, or educational level.

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