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Perceptions of premium service and superiority: Why do customers pay more for high-value-added domestic airline services in Japan?

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ABSTRACT

This paper clarifies the factors influencing customers' perceptions of premium service and superiority for high-value-added domestic airline services in Japan, and explains how these perceptions impact customer loyalty.

To gather data for the analysis of consumers' perceptions, a questionnaire survey of 515 respondents who use high-value-added domestic airline services was conducted. These respondents' data were analyzed using structural equation modeling.

The most valuable finding is the distinction between the perceptions of premium service and superiority, both of which strongly influence customer loyalty. This finding has two important implications. First, staff correspondence has a strong influence on customer loyalty – not directly, but through customers' perceptions of premium service and superiority. Second, perceptions of premium service and superiority influence customer loyalty separately. This finding may assist in the development of innovative high-value-added services.

1. Introduction

Why are consumers willing to pay more for high-value-added services? This problem is explored through the case study of high-value-added domestic airline services in Japan.

Many previous studies of service marketing have divided service quality into outcome quality and process quality. In the case of airline service, there is no difference in outcome quality: punctuality between economy class and premium class is the same. It is obvious, accordingly, that customers who pay more expect to receive higher process quality. This suggests the importance of analyzing process quality in detail in the study of high-value-added airline services. In this paper, therefore, process quality is divided into staff correspondence and the content of premium service, and then the difference of each factor's influence on customer loyalty is clarified. Because high-value-added service is considered to provide customers with a perception of superiority, its influence on customer loyalty is also discussed.

The status of high-value-added domestic airline services in Japan is as follows. Low-cost carriers (LCCs) have rapidly expanded their influence in the global airline market. In recent years, several LCCs have launched in Japan, such as Peach Aviation and Vanilla Air, whose main investor is All Nippon Airways (ANA), and Jetstar Japan, whose investors include Qantas Group and Japan Airlines (JAL). On the other hand, Japanese full-service carriers (FSCs) ANA and JAL provide high-value-added domestic airline services in Japan. Although the prices of high-value-added domestic airline services are 1.4–1.8 times higher than those of economy seats, these premium services maintain high seat occupancy rates.

In this paper, high-value-added domestic airline services are examined because the prices of high-value-added overseas airline services, such as business or first class, are 3.5–10 times higher than those of economy seats. This means that exceptionally high-level services are provided in business and first class. Accordingly, the research findings relating to high-value-added overseas airline services might be difficult to generalize or adapt to a wide range of other services. However, the prices of high-value-added domestic airline services are no more than twice that of economy seats. Consequently, the research findings relating to high-value-added domestic airline services might encourage participants to avoid price competition in various service industries.

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2. Literature review

2.1. Service quality

SERVQUAL (Parasuraman et al., 1985, 1986, 1988, 1991) is one of the most reputable service quality measurement frameworks. SERVQUAL's components provide the measurement of the difference between customers' expected levels of service and their actual perceived level of service, using five service quality dimensions: assurance, reliability, empathy, tangibility, and responsiveness, each of which is a component of the service experience. SERVQUAL is often used to measure service quality.

Many studies are critical of SERVQUAL, though. Cronin and Taylor (1992) insisted that SERVPERF, which measures customers' perceived service, was superior in terms of goodness of fit. Brown et al. (1993) supported SERVPERF based on the empirical research. The validity of SERVQUAL's five service quality dimensions has also been criticized by many researchers (Babakus and Boller, 1992; Carman, 1990; Cronin and Taylor, 1992).

Regarding other representative research on service quality, Grönroos (1984) argued that service quality was measured by the difference between expected service and perceived service as influenced by technical quality and functional quality.

Concerning the component of service, Kotler (1976), Grönroos (1990), and others supported an augmented service-offering model that included a distinction between core and peripheral services. Rust and Oliver (1994) expanded this model to include three components: service product, service delivery, and service environment. Lovelock (1995) proposed a supplementary services model aimed at identifying how additional services could augment core service.

2.2. Airline service quality

Scholarship on airline service quality has been influenced mainly by SERVQUAL. For example, Hussain et al. (2015) measured airline service quality based on reliability, responsiveness, assurance, tangibility, security and safety, and communication. They argued that service quality, perceived value, and brand image influenced customer satisfaction and brand loyalty. Sultan and Simpson (2000) compared European and U.S. airline passengers' expectations and perceptions of service quality using the SERVQUAL framework, as revised in 1991.

There are also many airline service quality studies based on Grönroos (1984) framework. Ozment and Morash (1994) studied the relationships between core service, peripheral service, external communication with customers, and service delivery, and also investigated the impacts of these factors on perceived and actual quality. They identified passenger services (in-flight passenger comfort, convenience, and safety), flight services (the in-flight operation of aircraft), and maintenance services (the maintenance of flight-status aircraft) as core services, and ground support (baggage handling, aircraft servicing, and traffic control) and general administrative support (financial and accounting activities, legal services, purchasing, and other general administration) as peripheral services. Anderson et al. (2008) investigated which component of the service concept was most important to different subsets of customers. They identified flight and time as core service elements, and interaction and physical service (aircraft, personal space, and food) as peripheral service elements. For different subsets of customers, demographic characteristics (gender, age, and income) and situational characteristics (experience and class of service) were used.

The three-component model used by Rust and Oliver (1994) has also influenced a large amount of research. Wu and Cheng (2013) constructed a model composed of interaction quality (conduct, expertise, and problem solving), physical environment quality (cleanliness, comfort, tangibles, and safety and security), outcome quality (valence and waiting time), and access quality (information and convenience).

Consequently, previous research regarding airline service quality has been primarily influenced by representative service quality research.

2.3. High-value-added airline service

Research on LCCs, which provide the opposite of high-value-added airline service, has frequently addressed the expanding LCCs' influence in the global market. For example, research has included a comparison between LCC and FSC using the SERVPERF framework (Leong et al., 2015), business travelers' determinants of selection of LCC and FSC (Fourie and Lubbe, 2006), business travelers' heterogeneity in LCC and FSC (Huse and Evangelho, 2007), and passenger loyalty to LCCs (Akamavi et al., 2015).

Merkert and Pearson (2015) clarified that service level perception had no significant impact on airline profitability; accordingly, the issue of customer perception of high-value-added airline service might contribute to profit by selling at a premium price is considered to be a valuable research subject. Hugon-Duprat and O'Connell (2015) clarified that the revenue from premium economy seats was 2.3 times that of economy seats, despite being only 1.6 times as expensive. However, there has been little research on high-value-added airline service. In one of the few studies of the subject, Claussen and O'Higgins (2010) compared the business class services of traditional FSC, such as British Airways and Delta, with those of emerging airlines such as Eos, Maxjet, and Silverjet. Price (fares and cheapest fare), schedule (connections, convenience, average delay, punctuality, flights on time), comfort (extra comfort and leg room, efficient check-in, helpful cabin staff, executive lounges, food and drink), convenience (number of program participants, membership of FFP, advanced seat selection), and image were adopted as elements of the measurement of service quality, based on the framework created by Doganis (2002). The authors concluded that emerging airlines were superior in price and image; conversely, they were inferior in schedule.

Consequently, past research has not constructed the dedicated model to analyze high-value-added airline services. In order to clarify peculiarity of high-value-added airline services, superiority could become a key factor. Attaching importance to superiority corresponds to a part of the social comparison process in which people evaluate and exalt themselves through comparison with others (Festinger, 1954). In more detail, this is a kind of downward comparison (Wills, 1981). The basic principle of downward comparison is that persons obtain a sense of subjective happiness through comparison with others who are less fortunate than themselves.

3. Conceptual framework

3.1. High-value-added domestic airline services in Japan

In Japan, two FSCs provide high-value-added domestic airline services: JAL and ANA. Although there are some differences between these services, the services and their prices are very similar. The main processes of high-value-added domestic airline services are as follows (JAL website; ANA website):

- Reservation: The customer reserves a premium seat at the airline company's counter, by phone, or over the internet. This