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 customers’ 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.

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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.
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 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
process does not offer any added value; the same services are provided for economy seats.
- Check-in: The customer can check in at an exclusive counter for premium seats. Accordingly, the customer does not normally need to stand in a line. The amount of checked luggage allowed is twice that allowed for economy seats.
- Lounge Access: The customer can use an exclusive lounge until boarding. The lounge includes luxurious sofas, and snacks and drinks are served.
- Boarding: The customer can board the plane ahead of economy seat customers through an exclusive gate.
- In-flight Service: The customer sits on a luxurious seat in the exclusive front area of the airplane. The occupied seat space is three times the size of an economy seat, and deluxe meals and drinks are provided, even though flight times are only one to four hours.
- Deplaning: The customer can exit the plane ahead of economy seat customers.
- Picking up baggage: The customer can pick up baggage ahead of economy seat customers.

3.2. Conceptual framework

To investigate customers' perceptions of premium service and superiority, the relationships between them, and their influences on customer loyalty, high-value-added domestic airline services were first divided into core and supplementary services with reference to Kotler (1976), Grönroos (1990), and Lovelock (1995) (Table 1). Next, core services were divided into outcome and process. Then, service factors were classified into general and premium.

Regarding the general factors, the core service is defined as a transfer; punctuality is classified as an outcome of a transfer; and staff correspondence is classified as a process of transfer. Safety is considered an outcome of transfer (Doganis, 2002) but is not selected as a factor because all airlines normally meet this condition (Claussen & O'Higgins, 2010). Maintenance, selected as a core service by Ozment and Morash (1994), is also not chosen, because customers cannot perceive this factor. Regarding the transfer process, staff correspondence is selected based on the interaction identified by Anderson et al. (2008) and Wu and Cheng (2013). Facilitating transfer is defined as a supplementary service, and reservations are selected to represent this service.

Upon examination of the premium factors of process in an airline's core service, there is no difference in outcome quality in the factor of transfer, because punctuality is the same for economy class and premium class. Because customers who pay more are assumed to expect a higher process quality, it is important that process quality is examined in the research of high-value-added airline service. Service processes such as check-in, lounge access, boarding, in-flight service, deplaning, and picking up baggage are identified as factors that provide customers a perception of premium service in the transfer process. These factors' influence on consumers' perception of premium service, and the impacts of this perception and other factors on customer loyalty, are investigated.

Customers' perception of superiority is also examined. Customers feel better when they perceive themselves to be superior, rather than inferior, to others (Drèze and Nunes, 2008; Giordano et al., 2000; Locke and Nekich, 2000). Particularly, customers' perceptions of superiority might strongly influence customer loyalty to premium services that are more expensive than middle-market services. In addition to the influence of punctuality as an outcome of transfer and reservations as a supplementary service on customer loyalty, the relationship between staff correspondence in the transfer process and perceptions of premium service and superiority, and the influence of these factors on customer loyalty, are explored.

4. Research method

A questionnaire survey of respondents who use high-value-added domestic airline services was used to collect data for analysis of consumers' perceptions. There were 515 respondents (Table 2). The questionnaire survey was conducted by Macromill, the largest market research company in Japan. The survey was conducted on-line from October 22 to 23, 2015. The Likert seven-point scale (1 — Strongly disagree, 2 — Disagree, 3 — Somewhat disagree, 4 — Neither agree nor disagree, 5 — Somewhat agree, 6 — Agree, and 7 — Strongly agree) was used to measure consumers' perceptions, and AMOS 22.0 was used to perform structural equation modeling to analyze the respondents' data.

Regarding the method of measurement, actual perceived service was identified. A measurement of the difference between customers' expected service and actual perceived service, such as SERVQUAL or Grönroos (1984), has often been used. However, customers' expected service includes various factors: brand, promotion, word of mouth (WOM), and so forth. Therefore, this type of measurement is not suited to the present research, which is aimed at clarifying consumers' perceptions of premium service and superiority based on the provision of high-value-added services.

The composite reliability (CR) was calculated to test reliability. The results were suitable coefficients, as listed in Table 3. Regarding unidimensional measurement and convergent validity, all constructs were confirmed by a confirmatory factor analysis (CFA) (Anderson and Gerbing, 1988; Bagozzi and Foxall, 1996; Steenkamp and van Trijp, 1991). Twenty-three items belonging to seven constructs were assessed by conducting a CFA. The indices indicated acceptable fit (GFI = 0.903, AGFI = 0.872, CFI = 0.968, RMSEA = 0.061), confirming the unidimensional measurement. Regarding convergent validity, each measured item was confirmed to identify the acceptable factor loadings for the expected

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<th>Components of high-value-added airline service quality.</th>
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<td>Core service (Transfer)</td>
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<td>General factor</td>
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constructs. The factor loadings indicated more than twice the standard errors (Anderson and Gerbing, 1988) and were >0.84, so convergent validity was confirmed in all items. Regarding discriminant validity, a sequential chi-square difference test (Anderson and Gerbing, 1988) was implemented. All models that integrated two randomly selected constructs had significantly low fitness, so discriminant validity was confirmed for all constructs. Further, the 95% confidence interval of the correlation coefficient between all constructs was confirmed not to include 1.

### 5. Findings

The findings on consumers' perceptions of premium service and superiority, and the influence of these factors on customer loyalty, are shown in Fig. 1. The model fit indexes are $\chi^2 = 775.973$ (d.f. = 214, p = 0.000), GFI = 0.884, CFI = 0.956, RMSEA = 0.071. The p-value is significant at the 0.001 level for all except Staff-Customer Loyalty (0.05 level) and Reservation–Customer Loyalty (not significant).

Punctuality influences customer loyalty to a certain degree. On the other hand, Reservation does not directly influence customer loyalty. The direct impact of staff correspondence is measurable. However, staff correspondence has an indirect large impact on customer loyalty by way of consumers' perceptions of premium service and superiority. Regarding perception of premium service and superiority, these factors influence customer loyalty more than punctuality, which is a core service.

### 6. Discussion and contributions

Though punctuality is considered a core airline service, this factor does not strongly influence customer loyalty. Punctuality is a minimum required condition; therefore, it is true that consumers' evaluation of customer loyalty is decreased if an airplane has delays. Nevertheless, consumers' evaluation of customer loyalty might not increase drastically if service related to punctuality...
improves. The reason for this is that, as described in 3.2, there is no difference in punctuality between economy class and premium class, so customers do not select premium class out of high expectations relating to this factor. Because this is not expected service, even when customers perceive that the level of this service is sufficient, they might not evaluate it.

Regarding reservations, many airlines have already provided easy-to-use reservation services, and they are quite similar across all airlines. Consequently, reservations are no longer a competitive driver in airline services.

As a whole, the results of this research confirm that customers pay more to receive expected higher process quality. Specifically, staff correspondence and premium elements have a relatively strong influence on customer loyalty.

However, the results of this study support not only this limited finding, but also some additional interesting insights. 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 indirect influence by way of perceptions of premium service and superiority. Hence, in addition to the contents of service, the manner of delivering the service is significant for increasing customer loyalty. Therefore, although there is often an emphasis on recruiting and training staff, this factor is particularly important for high-value-added services. Second, perceptions of premium service and superiority separately influence customer loyalty. Specifically, perception of premium service influences superiority, and this leads to an enhancement of customer loyalty. Then, perception of premium service directly enhances customer loyalty, regardless of superiority.

It is worth noting that staff correspondence and perceptions of premium service are service factors relating to rarity and restriction. The number of cabin crew is limited, so the time they spend taking care of customers is also limited. If crewmembers take extra time caring for a subset of the customers, time spent on the remaining customers will tend to decrease. In other words, high level of staff correspondence has a restriction resulting from the rarity of a resource. Regarding perceptions of premium service, premium service relies on a restriction. This restriction manifests itself in a customer perception: “Only I can receive this high level of service.” The influence of staff correspondence results from perceptions of premium service on superiority. The customer perception is, “I can receive more resource allocation.”

Staff correspondence and perceptions of premium service influence customer loyalty not only by way of superiority, but also directly. There is another aspect of customer loyalty that is influenced only by a high quality of service.

Customer loyalty to an airline service results from a complex mixture of service quality that includes relative service quality (a resource allocation rate) and absolute service quality (a resource input). In the area of airline service marketing, there are few papers that discuss service quality and customer loyalty from this viewpoint, so this paper is believed to contribute to this academic research area.

Nevertheless, further problems in this area remain to be addressed. This paper relatively analyzed various types of customers. In future research, customers that focus on superiority or purely require a high level of service (i.e., relative service quality as a resource allocation rate and absolute service quality as a resource input) will be distinguished by dividing respondents according to demographic characteristics. This research may assist in the development of innovative high-value-added services.

From a strategic management point of view, there are two options. One is the strategy that improves the perception of customers in a premium class. For example, the same content of service can be provided if a premium lounge is moved to an eye-catching location and also features a set of glass walls that enables customers in economy class to easily see inside the lounge, thereby possibly increasing premium class customers’ satisfaction. This implementation might increase economy class customers’ intention to purchase premium services. However, this strategy might also make customers who cannot receive the premium service feel unfairly treated and uncomfortable. Steinhoff and Palmatier (2016) verified that loyalty programs had opposing effects on targets and bystander customers’ loyalty and purchases. Accordingly, a second option that might be effective is to employ a strategy that decreases feelings of unfairness and discomfort for customers in economy class.

Whether to employ one or both of these strategies is an extremely difficult problem, which might be a future subject of interest for researchers and airline companies.

References


