文 化 事 業 與 管 理 研 究 第 十 五 期 2 0 1 6 年 5 月 頁 2 5 ~ 3 9 頁 Journal of Cultural Enterprise
and Management No.15
May, 2016
P.25~39

THE CONFLICT BETWEEN COMPANY POLICY AND CUSTOMER SATISFACTION: A CASE STUDY OF LOW COST CARRIER IN VIETNAM

Nguyen Duc-Anh¹ 翁靚芳 ²

Abstract

Low Cost Carriers (LCCs) have a competitive advantage better than Full Service Carriers (FSCs) in developing country because of its lower fares. Besides supplying the lower fare, Low Cost Carriers have to face with the average level of quality and customer dissatisfaction. The purpose of this study is to determine the reason why customer dissatisfies about LLC company policy. The result shows out the dimensions of low cost carrier's policy and subsequently to identify the relationship between its effects and customer satisfaction on the airlines services. For this study, it is mention about the case-study of Vietjet Air in Vietnam. Specially, it researches about Vietjet Air's refund policy which causes customer dissatisfaction. The study analyzes Vietjet Air's case study to figure out the effective ways to issue the policy that can be balance between company's profit and customer satisfaction.

Keywords: Low-cost Carriers; Refund policy; Customer satisfaction



¹南華大學企業管理學系碩士生

²南華大學文化創意事業管理研究所碩士生

INTRODUCTION

According to Civil Aviation Authority Vietnam, 10 early month of 2015, the total number of passenger transported by airlines is 51.8 million and cargo is 795,000 tons, increasing 23.4% and 9% compare with the same period in previous year. Specially, Vietnamese airlines transported 25.6 million passengers (increase 23.4%) and 198,000 tons of cargo (increase 5.1% compare with same period last year). In this, Vietnam Airlines (VNA – the Full Service Airline) transported 14.6 million, increase 9.3% compare with same period in 2014. VASCO (FSA) transported about 330,000 passenger, increase 43.7%. The two rest airlines is Jetstar Pacific Airlines (JPA) with 3.2 million transported passenger increasing 54.5% and Vietjet Air with 7.4 million passenger, increase 66.1% compare with the same period in 2014. In the domestic market, especially in passenger transportation, there had been a big shift among airlines. Current market share is 47.6% VNA, VASCO 1.8%, JPA 14.9%, VJA 35.7%. It has a change from 2014 with VNA 56.6%, VASCO 1.6%, JPA 13% and VJA 28.8%.

Domestic Market Share 2014

Domestic Market Share 2015

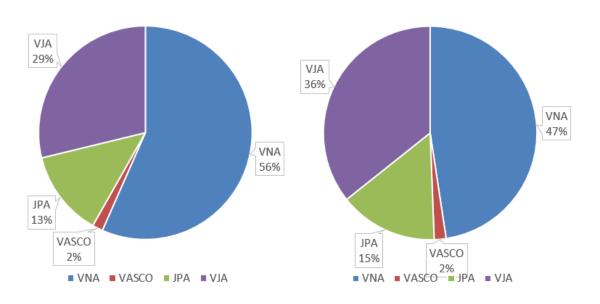


Figure 1. Graph of Domestic Market share in 2014 and 2015

Source: Civil Aviation Authority Vietnam Annual Report 2015

The statistic number shows that Vietnamese airline market is extremely competitive in a several recent years, because of the emergence of Low Cost Carriers



(LCCs). Jou, Lam, Hensher, Chen, and Kuo (2008) reported that passengers consider service quality and price when choosing airlines. LCCs continue to develop because of passengers' needs for low cost airlines travel. However, according to Holtbrugge, Wilson, and Berg (2006), many airlines aim to provide a high level of service quality to enhance customer satisfaction and to increase the efficiency of airline brands to replace the reputation of LCCs as low fare's benefit. Moreover, Balcombe, Fraser, and Harris (2009) show that not only price but also service quality can effect to the passengers' behaviors as well. In fact, airlines are always trying to maximize their profit by adjusting price to be comparable with competitors' fares. To achieve this, these airlines may reduce their prices continuously until their goal is reached (Jou et al., 2008). Assaf (2009) stated that more airlines could lower their fares to attract a greater number of passengers.

Vietjet Aviation Joint Stock Company, trading as Vietjet Air or Vietjet, is an international low-cost airline from Vietnam. It was the first privately owned new-generation airlines to be established in Vietnam, being granted its initial approval to operate by the Vietnamese Minister of Finance in November 2007. As of its launch in December 2011, it became the second private airline to offer domestic service in Vietnam, as well as the fifth airline overall to offer civil domestic flights.

Vietjet Air is a Vietnamese aviation company which follows the low cost carrier model, but Vietjet Air would like to improve it to become a "New – Generation" Low Cost Airline. Low cost can be understood as the lowest cost after cutting down every extra unnecessary service to make a cheap price for customer. "New generation" is launched by Vietjet to prove that: "Cheap price is not also with low services".

Vietjet Air is the airline for everyone, equality in only one class on the plane. Along with the promotion of reduced fares, Vietjet Air has contributed the flight journey closer to Vietnamese people.

In addition, to increase and keep the profit, low cost airline using their policy to take more profit from the customer. The low-cost carrier company issues strict policy and regulation to control their own operation as well, and in some case the policy can also help them to increase the profit by using customer's mistake such as changing fee, late fee and so on. This research uses the case-study about Vietjet Air's refund policy to indicate its impact to customer satisfaction.

Customer satisfaction in airlines industry has become critically important. Reichheld and Sasser (1990) show that retaining customers has a stronger impact on company profit than does attracting new customers. They determined that to maximize profits companies should strive for zero defection through customer



satisfaction. Gupta, Lehmann, and Stuart (2004) stated that a 1% increase in the customer retention rate had a 5% influence on the company's profit. Therefore, understanding customer satisfaction is very important for customer intention in Vietnam LCC market.

(Pizam & Milman, 1993). Anderson, Fornell, and Rust (1997) state that the importance of each dimension of service quality which has an influence on customer satisfaction varies with the situation. Thus, the relative impact of service quality on customer satisfaction in the airline industry is unique among industries. Furrer, Liu, and Sudharshan (2000) also support the idea that the relative importance of the service quality dimensions can provide beneficial insights into how companies should manage resources for different customers. And on of the most effective factor in service quality is policy. Policy is the base for all firm's operation and service quality. However, there are less previous studies mention about the impact of policy to customer satisfaction in airlines industry. Thus, the purpose of this research is to determine the conflict between policy and customer satisfaction in low-cost carrier industry. Besides, it shows out the effective way to issue policy which can balance between the profit of LCC company and customer satisfaction.

LITERATURE REVIEW

According to Andrija Vidović, Igor Štimac, Damir Vince 2013, Low-cost Airlines focus on reducing costs in order to implement a leading price strategy on markets they serve. The usage of younger homogeneous medium sized flight crew (such as Boeing 737-700/800 or Airbus 319/320) which use in lower fuel, maintenance and personnel costs.

The LCA's ticket is not included seat assignment. LCA uses "free-seating" philosophy to reduce operating costs because it encourages passengers to board the plane earlier if they would like to have a front seat and also reduce delays. Besides, to decrease the cost, LCC sell ticket directly online, higher density seating, as well as by eliminating all free in-flight extra services such as catering, entertainment during the flight, magazines, etc.

The LCA price strategy is usually very dynamic. For example, they divide into different level of ticket price, they offer significant discounts if a passenger buys a ticket earlier. LCA generate additional revenues by selling products and services during the flight and on their websites such as fees for check-in luggage and credit card payment. While the LCA in past were initially focused on short-haul flights, today they increasingly expand their services to medium-haul markets. The main



reasons is LCA want to enter in medium haul market and compete with full-service airlines.

The differences between Low-cost Airlines and Traditional Airlines show on these picture below:

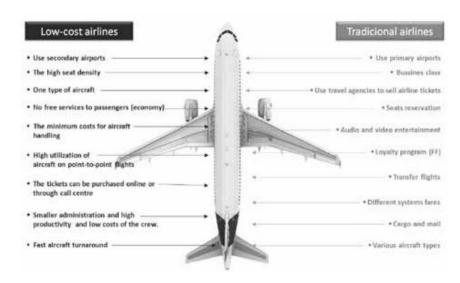


Figure 2. The Characteristics between Low-cost Airlines and Traditional Airlines

Source: Stimac et al. (2012)

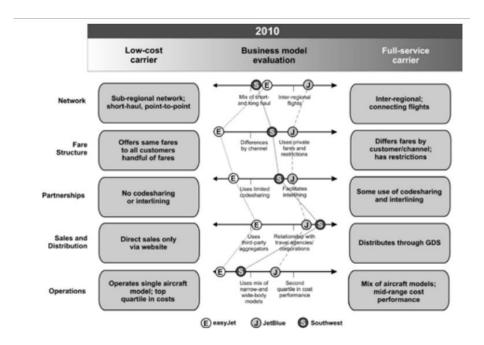


Figure 3. Features of Business Model between Low-cost carrier and Full-service Carrier

Source: Sabre (2011)



Customer satisfaction

Oliver, R.L. (1997) defined that satisfaction is the consumer's fulfillment response. It is an evaluation that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under or over-fulfillment. Satisfaction is an "overall customer attitude towards a service provider" (Levesque & McDougall, 1996). Otherwise, according to Zineldin, M. (2000), customer satisfaction is an emotional reaction to the difference between what customers expect and what they receive. When customers are satisfied, they always want to use the product or service again, but when they are dissatisfied, they trend to find another replacement (Heskett et al., 1994; Strauss et al., 2001; Zairi, 2000).

Customer satisfaction has become a main objective in service operation because of its benefit brings to organization (Ranaweera and Prabhu, 2003). Shin and Elliott (2001) said that if a business would like to be successful and profitable, it must satisfy customers. And some research show that it costs more to earn from a new customer than retain a current one (Blodgett, Wakefield, and Barners, 1995; Gummesson, 1994). Besides, customer satisfaction also conduct to good word-of-mouth compliment that becomes a very effective way to advertise for organization (Halstead and Page, 1992; Fornell, 1992). Customer satisfaction is a good replacement for complaints, it indicates that having satisfied customers also means that the company receives less complaints (Fornell, Johnson, Anderson, Cha, and Bryant, 1996; Spreng, Harrell, and Mackoy, 1995) and decreases cost for controlling service failures. Several studies mention that satisfied consumers are ready to pay more to get high service quality and willing to be patient of increasing price (Fornell et al., 1996; Anderson, Fornell, and Lehmann, 1994). Finally, Shin and Elliott (2001) concluded that, organization could improve benefit, expand their business and market share by satisfying their customers.

The relationship between policy and customer satisfaction

To reach a high level of customer satisfaction, almost research show that it always accompanies to high level of service quality (Cronin, Brady, and Hult, 2000; Anderson et al., 1994; Cronin and Taylor, 1992). Zeithaml (1988) stated that perceived service quality is a more beneficial attribute than price, which is often ignored. Many airlines try to enhance organizational effectiveness and productivity by improving service quality which is considered as a necessary strategy for firm's success. Therefore, perceived service quality has become an important factor affecting airlines industry in a highly competitive market (Gilbert & Wong, 2003).



In addition, SERVQUAL model of Parasuraman et al. (1985, 1988) defined service quality through the gap between customer's expectations and perceptions. Five dimensions of service quality in airlines industry are described below:

- 1. **Tangibles** are the physical facilities of the aircraft such as seat space, seat comfort and legroom, in-flight service (meal, magazine, souvenir, etc.).
- 2. **Reliability** is ability to perform service dependably and accurately, such as on-time, effective check-in and check-out process, reservation and ticketing system.
- 3. **Responsiveness** is ability of the service provider's to provide prompt service and the willingness to help customers. For example: response to emergency situations, helping customer in the case of flight cancelation or missing luggage.
- 4. **Assurance** is the element that represents the knowledge and courtesy of service providers and their ability to convey trust and confidence. (Ability to answer customer's questions and ensure safe performance)
- 5. **Empathy** is ability of the service provider in providing care and attention individually to each customer. Such as, priority front sear for old people, pregnant woman and kid, providing special service for disable people.

The most important reason effect to service quality is organization's policy. It is a set of basic principles and associated guidelines, formulated and enforced by the governing body of an organization, to direct and limit its actions in pursuit of long-term goals. Policy is use for controlling all organization's activities in a specific direction included service operation and quality. Through service quality, policy affect customer satisfaction. Therefore, to satisfy customer, company need to issue a suitable policy which can balance between their benefit and customer expectation.

CASE STUDY

Vietjet Air's Refund Policy

These are some regulations about Vietjet Air's refund policy:

- According to Vietjet Air's refund policy, all of Vietjet Air's ticket are non-refundable type.
- Vietjet Air refunds for customer in the situations below:
 - · Flight cancelation
 - The flight delays over 3 hours



- Duplicated reservation (with cancel fee)
- · System errors

This research mentions about several unreasonable points in Vietjet Air's refund policy.

- For the round trip ticket has two reservations (booking numbers) which has the departure time of return flight over 48 hours compare to the departure time of first flight. Vietjet Air just only refund for first flight (if it is canceled or delayed over 3 hours) and does not refund for the return flight. If the round trip has only one reservation, Vietjet Air will refund for customer whole ticket including first and return flights normally.
- Refund money will be transferred to customer in 4 working weeks.
- Refund money will be transferred via the original payment method which customer has used to purchase ticket before.

Example of non-refundable policy for return flight which is over 48 hours compare to departure time of first flight

These are three reservations with the same passenger's name and information.

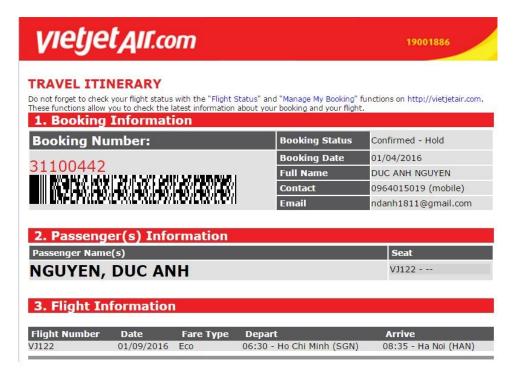


Figure 4. Reservation of first flight: Ho Chi Minh - Hanoi, departure time at 6:30 on Sep 1st





Figure 5. Reservation of return flight: Hanoi – Ho Chi Minh, departure time at 6:40 on Sep 3rd



Figure 6. Reservation of return flight: Hanoi – Ho Chi Minh, departure time at 5:45 on Sep 3rd



In this situation, if the first flight (Figure 4 – Reservation #31100442) is canceled or delayed over 3 hours, Vietjet Air's refund just only for the first flight and does not refund for return flight (Figure 5 – Reservation #31100446) which departs at 6:40, because that return flight is 48 hours and 10 minutes (over 48 hours) compare to the departure time of first flight. However, Vietjet Air can refund for the return flight (Figure 6 – Reservation #31100449), because it under 48 hours compare to the departure time of first flight.

Example of transferring refund money in 4 working weeks

This example is about a customer who purchased group ticket. She purchased 10 round trip tickets for her family trip from Hanoi to Bangkok (Thailand). The totally ticket price including seat assignment and check – luggage is 2000 USD. However, some commercial reasons occurred so that Vietjet Air canceled the flight from Hanoi to Bangkok. That why Vietjet Air had to refund the whole ticket for her, but according to refund policy, the money would be transferred to her account in 4 working weeks. It means that she needed to wait until 4 weeks to get back her money. At that time, she had already booked the hotel and paid all of travel costs in Bangkok, she needed money to purchase new ticket from the other airlines, but her refund money had not been transferred for her yet.

Example of transferring refund money via the original payment method

This example mentions about a poor worker who purchased tickets for his family trip to his hometown on Lunar New Year Holiday. He paid ticket fare from a private agency. Because of changing departure time (over 3 hours) and he could not check in at the new departure time, so he wants to refund his fare for purchasing a new suitable ticket from another airlines. According to refund policy, he needed to contact the agency to get his refund money back. Unfortunately, at that time agency was off for the holiday, so he could not get back his refund money to purchase a new one.

DISCUSSION

Why does Vietjet Air issue the refund policy like that?

For the policy about non-refundable policy for return flight which is over 48 hours compare to departure time of first flight. Firstly, company wants customer change the first flight to another time or day or purchase from another airlines and continue use the return flight. This is the way Vietjet uses to avoid decreasing profit



For the policy involve about transferring refund money in 4 working weeks. Company wants to keep the refund money as long as possible for reinvestment or spending for their cost.

To simplify the refund process, Vietjet Air regulates that customers must receive their refund money via their original payment method.

Analyzing case study

Evidently, Vietjet Air is a low-cost airlines, so that customer cannot require too much about their services. However, these policy are unreasonable, because if they are willing to refund the return flight of round trip ticket with reservation how can they deny to refund for round trip ticket with two reservation? Moreover, when customer purchase ticket, they have 24 hours to payment but they need to wait for 4 weeks to receive refund money which is not caused by their fault.

Applying SERVQUAL model of Parasuraman et al. (1985, 1988) to this case study, Vietjet Air has missing dimensions of service quality about reliability, responsiveness, assurance and empathy.

- Reliability: the reasons of delayed and canceled flights are not belong to customer, but Vietjet Air do not only support for customer but they also issue unreasonable refund policy. They will let customers do not believe in their company and trend to change into another airlines
- Responsiveness: delayed and canceled flight are emergency situation. However, they do not take their responsibility to help customer, they use it to maintain the profit.
- Assurance: every information about refund policy on the official website are not clear and difficult to understand. Because of the low ticket fare, almost Vietjet's customers are people who have low or average income and also with low educated. So that they cannot understand the policy which is composed with very long, unintelligible words and unsystematic. Besides, the missing information of staff force also leads to this consequence.
- Empathy: Gupta, Lehmann, and Stuart (2004) stated that a 1% increase in the customer retention rate had a 5% influence on the company's profit. Therefore, empathy of customer is very important especially in airlines industry. Vietjet Air does not understand and empathize with the justifiable expectations of customer. In this case, Vietjet Air had put customer on a very difficult situation. It does not only let them dissatisfied but also make them feel panic



and do not know how to handle it.

Finally, these things cause to Vietjet Air many bad consequences. Customer will complaint and get very angry. At that time, it is also effect to the nearby customers who will empathize with these customers and maybe become angry. The word-of-mouth effect will spread out to their families and friends. Hence, the number of people who are losing belief in Vietjet will increase. And the result is they will never use Vietjet Air's products and services again.

CONCLUSION

Many researchers concluded that is more important to evaluate the defensive effects of customer than to understand the offensive effects which captures new customers in competitive environments (Reichheld & Sasser, 1990). It means that maintaining current customers and their loyalty is more important than finding new customers. Besides, customer retention is critical in highly competitive markets. Thus, it is necessary to assess the passengers' perceived service quality when using LCCs. This is a significant and practical implication for LCCs manager issue a suitable policy for improving service quality.

The final goal for every business organizations is maximizing profit. However, Vietjet Air is getting some mistakes in increasing their profit. There are many ways to gain win – win benefit without using the unreasonable policy that can make customer dissatisfied. A very efficient way is satisfying the customer expectation and using word-of-mouth from them to advertise for company. Vietjet Air needs to adjust refund policy to balance between their own profit and customer satisfaction by some solutions below:

- Every necessary information for customers must be presented certainty on the official website. List of information need to be sorted by level of importance and detail. The sentences can let customer easily to understand and remember.
- Human resource especially ticketing staff and ground operation staff need to be trained and updated new information. They have to remind customers carefully before they purchase ticket and check-in.
- Before issue policy, managers have to consider about customer expectation and their loyalty. They need to figure out what is really good for their company. Using customer satisfaction to maintain the current customer is one of the most efficient ways, through that current customer they can capture new customers by word-of-mouth effect and expand their market share. The



managers should eliminate the conflict in policy by balancing it between profit and customer satisfaction.

- After issue policy, they need to make a survey to take feedback from customer and staff. To evaluate about the policy and find out which one is still not good and adjust it more suitably.
- Employees always try their best to help customer's problem to recover their loyalty.

In conclusion, the results of this study show that policy is very important for every companies, it affects many factors of service quality. And service quality is direct cause to customer satisfaction. Nowadays, customer takes a critical essential role in every industries. Therefore, to have a sustainable development, the balance between company's benefit and customer satisfaction has become very important

REFERENCES

- [1] Anderson, E. W., Fornell, C., & Rust, R. T. (1997). Customer satisfaction, productivity and profitability: differences between goods and services. Marketing Science, 16(2), 129–145.
- [2] Anderson, E., Fornell, C., & Lehmann, D.R. (1994). "Customer satisfaction, Market share, and Profitability: Findings from Sweden", Journal of Marketing, 58(1), 53-66.
- [3] Andrija Vidović, Igor Štimac, Damir Vince (2013). Development of business models of low-cost airline. International Journal for Traffic and Transport Engineering, 3(1), 72 73.
- [4] Assaf, A. (2009). Are U.S. airlines really in crisis? Tourism Management, 30(6), 916–921.
- [5] Balcombe, K., Fraser, I., & Harris, L. (2009). Consumer willingness to pay for in-flight service and comfort levels: a choice experiment. Journal of Air Transport Management, 15(5), 221–226.
- [6] Blodgett, J.G., Wakefield, K.L., & Barnes, J.H. (1995). "The effects of customer service on consumer complaining behavior", Journal of Services Marketing, 9(4), 31-42.
- [7] Fornell, C. (1992). "A national customer satisfaction barometer: The Swedish Experience", Journal of Marketing, Vol. 56, January, pp. 6-21.



- [8] Fornell, C., Johnson, M.D., Anderson, E.W., Char, J., & Bryant, B.E. (1996). "The American Customer Satisfaction Index: Nature, Purpose and Findings", Journal of Marketing, Vol. 60, October, pp. 7-18.
- [9] Furrer, O., Liu, B. S.-C., & Sudharshan, D. (2000). The relationships between culture and service quality perceptions: basis for cross-cultural market. Journal of Service Research, 2(4), 355–371.
- [10] Gilbert, D., & Wong, R. K. C. (2003). Passenger expectations and airlines services: a Hong Kong based study. Tourism Management, 24(5), 519–532.
- [11] Gummesson, E. (1994), Relationship Marketing: From 4Ps to 30Rs, Stockholm University, Stockholm.
- [12] Gupta, S., Lehmann, D., & Stuart, J. (2004). Valuing customer. Journal of Marketing Research, 41(1), 7–18.
- [13] Halstead, D., & Page, T.J.Jr. (1992). "The effects of satisfaction and complaining behavior on consumers repurchase behavior", Journal of Satisfaction, Dissatisfaction and Complaining Behavior, 5, 1-11.
- [14] Heskett, J.L., Jones, T.O., Loveman, G.W., Sasser, W.E. Jr., & Schlesinger, L.A. (1994). "Putting the service profit chain to work", Harvard Business Review, March/April, pp. 105-11.
- [15] Holtbrugge, D., Wilson, S., & Berg, N. (2006). Human resource management at Star Alliance: pressures for standardization and differentiation. Journal of Air Transport Management, 12(6), 306–312
- [16] Jou, R.-C., Lam, S.-H., Hensher, D. A., Chen, C.-C., & Kuo, C.-W. (2008). the effect of service quality and price on international airline competition. Transportation Research Part E, 44, 580 –592.
- [17] Levesque, T., & McDougall, G.H.G. (1996), "Determinants of customer satisfaction in retail banking", International Journal of Bank Marketing, 14(7), 12-20.
- [18] Oliver, R.L. (1997). Satisfaction: A Behavioral Perspective on the Consumer. Singapore McGraw-Hill Companies Inc.
- [19] Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A multiple item scale of measuring consumer perceptions of service quality. Journal of Retailing, 64(1), 12–40.



- [20] Pizam, A., & Milman, A. (1993). Predicting satisfaction among first time visitors to a destination by using the expectancy disconfirmation theory. International Journal of Hospitality Management, 12(2), 197–209.
- [21] Ranaweera C., & Prabhu J. (2003). "On the relative importance of customer satisfaction and trust as determinants of customer retention and positive word of mouth", Journal of Targeting, Measurement and Analysis for Marketing, 12(1), 82-98.
- [22] Reichheld, F. F., & Sasser, W. E. (1990). Zero defections: quality comes to services. Harvard Business Review, 68(5), 105–112.
- [23] Shin, D., & Elliott, K.M. (2001). "Measuring Customers' Overall Satisfaction: A Multi-Attributes Assessment", Services Marketing Quarterly, 22(1), 3-19.
- [24] Spreng, R.A., Harrell, G.D., & Mackoy, R.D. (1995). "Service Recovery: Impact on Satisfaction and Intentions", Journal of Services Marketing, 9(1), 15-23.
- [25] Strauss, B., Chojnacki, K., Decker, A., & Hoffman, F. (2001). "Retention effects of a customer club", International Journal of Service Industry Management, 12(1), 7-19.
- [26] Zairi, M. (2000). "Managing customer satisfaction: a best practice perspective", The TQM Magazine, 12(6), 389-94.
- [27] Zeithaml, V. A. (July 1988). Consumer perceptions of price, quality and value: a Means-End Model and synthesis of evidence. Journal of Marketing, 52, 2–22.
- [28] Zineldin, M. (2000). "Total relationship management (TRM) and total quality management (TQM)", Managerial Auditing Journal, 15(1/2), 20-8.

