A Business Model of Low Cost Carrier in Indonesia
(The Influence of Perceived Advertising Spending and Price Deals on Brand Equity)
CASE STUDY: PT. INDONESIA AIRASIA

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Abstract
This research aims to analyze the influence of the elements of marketing communication mix, especially the influence of advertising as seen from the perspective of the consumer *(perceive advertising spending)* and price deals on brand equity. Measurements were taken from the research variables by determining how much the relationship between variables. Descriptive analysis is used to see the profile picture of the user respondents AirAsia flight services. Verification analysis is used to test the hypothesis by using Structural Equation Modeling *(SEM)*. The unit of analysis is the LCC passengers Indonesia AirAsia flight services. The number of samples selected in groups (clusters). The selection of a simple random sample were 105 questionnaires.
Analysis of the results showed that there is a positive and significant relationship between perceived advertising spending on brand equity. In contrast to the variable price deals showed a negative relationship to brand equity.
This research concludes that the consumer perspective to ads *(advertising)* is spent by the company in a significantly positive effect. Perceive advertising spending is then measured and shows can increase brand equity AirAsia. Conversely, price deals do not significantly affect on AIRASIA Brand Equity.

Keywords: Flight lcc, perceived advertising spending, price deals, brand equity.

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Introduction

In Indonesia, the growth of air transport services with the business concept of low fare *(low cost carrier)* has developed very fluctuating in the last fifteen years after the deregulation of airlines in 1999. In an effort to improve the sustainability of its operations, several airlines with the business concept of *LCC* has been doing a variety of marketing communication strategies to increase brand equity. One of the application of the marketing communication mix strategy "mass communication" is advertising and price deals which aims to enhance the brand equity as measured by consumer perception.

According to Susanto and Wijanarko (2004), in the face of stiff competition, a strong brand is a clear differentiator, valueable, and continuous, become spearhead for the competitiveness of companies and very helpful in marketing strategy. Kotler dan Armstrong (2004), Brand equity is the positive differential effect that knowing the brand name has on customer response to the product or service, it means brand equity is the strength of a brand which can increase or decrease the value of the brand it self, which can be seen from the response of consumers to the goods or services sold.

In advertising strategy, Archibald, Haulman, and Moody (1983) explains that the level of advertising spending is a good indicator not only of high quality but also affect to the purchase. Aaker and Jacobson (1994) also found a positive relationship between advertising and the perception of quality. Therefore, advertising spending is positively related to perceived quality, which leads to a higher brand equity.

Advertising spending is almost always associated with the amount of funds issued by the company to finance advertising (actual expenses). In this study, the impression of perceived advertising spending is a subjective perception of consumers about the amount of advertising spending by the companies, not based on actual expenditures in nominal currency but based on what consumers see, hear and feel of the existence of the advertising.

Price deals strategy are usually in the form of short-term price reductions such as special sales, coupons, rebates, and refunds, often believed can be decrease brand equity, although the brand equity can increase sales in the short term (Yoo et al. 2000). According to (Aaker 1991) Price deals may not be the desired way to build brand equity because it is easily copied and counteracted and only improve short-term performance by encouraging the sale of a moment and then switch to another brand.

Grewal et al. (1998) stated that the price deal is very likely to have a negative influence on the perception of quality. Quality perception can be explained by the theory of self-perception, one type of attribution theory that can describes how consumers explain an event. If consumers buy a product with the cheaper they often assume that the product is sold for less because they have poorer quality.

Based on the above, this study will examine more deeply about the perceived advertising spending and price deals on brand equity as measured from the perspective of the

consumer. This research study is base on one of the national LCC airline operators in Indonesia, PT. Indonesia AirAsia

2. Literature review

According RS Damardjati in his book *"The World Tourism Terminology"* (2001: 06) suggests the airline notion as following : The airline company is private or government-owned company which organizes air transport services for passengers well general scheduled and non-scheduled. FX Widadi A. Suwarno (2001: 7) argues that the airline company is a company that publishes documents airlines to carry passengers and their baggage, goods shipment *(cargo),* and postal *(mail)* with the aircraft".

From the definition above, it can be concluded that the Airlines is an air transport company that provides and organizes air transport services that operate and publish documents with a regular flight and planned to carry passengers, passenger baggage, shipments (cargo), and postal stationery to destination

2.1 Relation between perceived advertising spending and brand equity

Keller (2003) noted that the company's marketing communications contribute to brand equity. That means, effective communication allows the formation of brand awareness and positive brand image. Perceived advertising spending has a positive effect not only on the overall brand equity, but also on each dimension of brand equity, consists of: loyalty, awareness, perceived quality and brand associations.

Archibald et al. (1983) The relationship between investment in marketing communications affect not only the quality of the perceived of the brand, but also support purchasing decisions by increasing the value of the product. There fore, advertising expenditures tend to be positively related to brand equity.

Angel and Manuel (2005) Advertising spending, as a major marketing communication tool in the consumer market must be considered when determining the effects of marketing communication on consumer. Kirmani and Wright, (1989). When consumers see high spending on advertising, this contributes to their perception of the level of confidence in the product.

The relationship between perceived quality and marketing communications expenditure is justified by the different studies. Favorable relationship between marketing communications and investment spending on brand in the company, which involves the perception of higher quality (Aaker and Jacobson, 1994; Archibald, Haulman and Moody, 1983).

### 2.2 The relationship between Price Deals and Brand Equity

The use of price deals have a negative effect on brand equity as it is considered that consumers feel the negative relationship between brand equity and the need to use incentives to influence the sales price level (Yoo, Donthu and Lee, 2000). Mela, Gupta and Lehman, (1997) traditional research suggests that the sales promotions erode brand

equity. Usually the price adjusted by the manufacturer as a method of direct promotion will increase the willingness of the customer's purchase and most of the effects of price cuts seen in the short-term consumer brand choice.

Promotion increases the price sensitivity of consumers who are not loyal but it does not hold when the long-term effects to be considered. In this case use the promotional price means a decrease in brand equity. There fore, price deals can have a negative effect on the perception of the customer, making the customer differential awareness on perceived quality and then affect brand equity and customer purchase

Figure 1 shows a path diagram of the measurement model specification analysis of the influence of the elements of marketing communication on brand equity.

Figure 1
Research Model
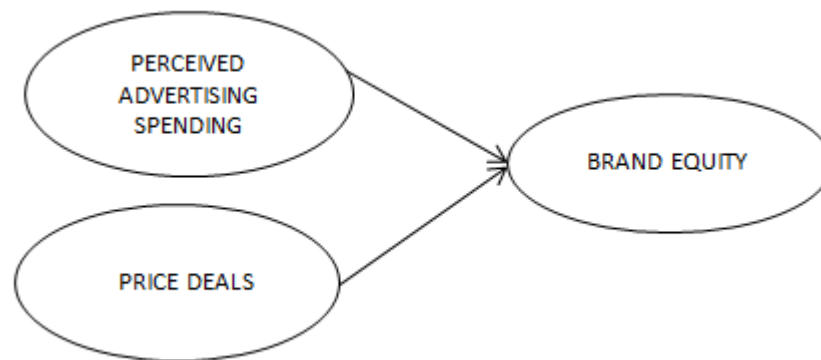
2.3 Hypothesis

In this study, two variables are taken from the marketing communications mix : perceived advertising spending and price deals. Based on research Chay and Tellis, Simon and Sullivan, Boulding, stating that advertising spending contribute positively in building brand equity. Other researchers such as Aaker, Yoo et al,. Stating that price deals have a negative effect on brand equity. Hypothesis is structured as follows:

H_1 : Perceived advertising spending has positive influence on brand equity.
H_2 : Price deals has negative influence on brand equity.

3 Methodology

The subjects were passengers or consumers who had used the services of AirAsia flight, while the study object is a low fare airline industry (low cost carrier) Indonesia AirAsia with the construct of variables studied were : perceived advertising spending, price deals and brand equity. The sampling method study was conducted by using the type of probability sampling. This sampling technique divides the total population into several areas (clusters) where each element in the cluster have different characteristics (heterogeneous) samples were then drawn at random. A sample of 105 questionnaires were taken from four (4) major cities in Indonesia such as: Jakarta, Yogyakarta,

Denpasar, Medan.

Data analysis tools used in this study is a quantitative method using a statistical approach that includes validity test and reliability test questionnaire using SPSS 22.0 software to process the raw data, while the data processing analysis and interpretation of data using statistical methods of SEM (structural equation modeling) using LISREL 8.80 software.

4. Analysis and Result

4.1 Respondents characteristic

Table 1
Respondents Characteristic

PROFILE OF THE RESPONDENTS	CATEGORY	FREQUENCY	PERCENT (%)
GENDER	Male	73	69.5
	Female	32	30.5
AGE	< 25 Years	23	21.9
	25 - 29 Years	20	19
	30 - 39 Years	28	26.7
	> 40 Years	34	32.4
OCCUPATION	Student	14	13.3
	Government / Private Employees	67	63.8
	Housewife	9	8.6
	others	15	14.3
EDUCATION LEVEL	Junior High School	4	3.8
	Senior High School	52	49.5
	Academy	3	2.9
	S1	36	34.3
	S2	5	4.8
	S3	1	1
	others	4	3.8
EXPENDITURE PER MONTH	< 4million	68	64.8
	5 - 6 million	20	19
	7 - 8 million	3	2.9
	> 9million	14	13.3

number of samples (Σn) = 105

4.2 Measurement model and results

Table 2
Goodness of fit Statistic & Result

Fit Measure	Good Fit	Acceptable Fit	Score Research	Result
χ2 (Chi-square)	$0 \leq \chi2 \leq 2df$	$2df \leq \chi2 \leq 3df$	22,73	Good Fit
p value	$0,05 < p \leq 1,00$	$0,01 \leq p \leq 0,05$	0,77	Good Fit
χ2/df	$0 \leq \chi2/df \leq 2$	$2 < \chi2/df \leq 3$	0,007	Good Fit
RMSEA	$0 \leq RMSEA \leq 0,05$	$0,05 \leq RMSEA \leq 0,08$	0,000	Good Fit
P value for test of close fit (RMSEA < 0,05)	$0,10 < p \leq 1,00$	$0,05 < p \leq 0,10$	0,98	Good Fit
Confidence interval (CI)	Close to RMSEA, left boundary of CI = 0,00	Close to RMSEA	(0.0 ; 0.037)	Good Fit
SRMR	$0 \leq SRMR \leq 0,05$	$0,05 \leq SRMR \leq 0,10$	0,040	Good Fit
NFI	$0,95 \leq NFI \leq 1,00$	$0,90 \leq NFI \leq 0,95$	0,97	Good Fit
NNFI	$0,97 \leq NNFI \leq 1,00$	$0,95 \leq NNFI \leq 0,97$	0,98	Good Fit
CFI	$0,97 \leq CFI \leq 1,00$	$0,95 \leq CFI \leq 0,97$	0.99	Good Fit
GFI	$0,95 \leq GFI \leq 1,00$	$0,90 \leq GFI \leq 0,95$	0,97	Good Fit
AGFI	$0,90 \leq AGFI \leq 1,00$ close to GFI	$0,85 \leq AGFI \leq 0,90$ close to GFI	0,95	Good Fit

 Source: Engel and Moosbrugger (2003) and the results of the analysis of data with LISREL 8.80.

Standardized RMR at $0:05 \leq 0.040$ indicates a good fit, P value $\leq 0.77\ 040$ indicates a good fit. Overall, based on the data model of the measurement value data in the table 2, the researcher can conclude that the entire model is a good match (fit).

4.3 Analysis of Measurement Model
After the authors test the suitability of the model and overall is good, the next step is the evaluation or measurement models to test the suitability of each construct or measurement model through:

> Evaluation the validity of the measurement model.
> Evaluation the reliability of the measurement model.

Validity relates to a variable measures, what it is supposed to be measured. a variable have good validity of the construct or latent variable if:

Value t loading factor is greater than the critical value or ≥ 1.96.
Standardized loading factor ≥ 0.70.

Reliability is the consistency of a measurement. Based on this measure of reliability for the SEM will be used: composite reliability measure. Construct a composite reliability calculated manually with the following formula:

$$Construct\ Reliability = \frac{\left(\sum std.loading\right)^2}{\left(\sum std.loading\right)^2 +}$$

Where std.loading can be obtained directly from the output of the program Lisrel and ej is the measurement error for each indicator, extract variant or variable reflects the overall amount of variance in the indicators (observed variables) are explained by the latent variables.

Formula manually as follows:

$$Variance\ Extracted = \frac{\sum std.loading^2}{\sum std.loading + e_j}$$

**Value loading factor indicator from the processing of Path Model Diagram**

Variable		Standardized Loading Factors ≥ 0.50	Errors	Reliability		Remark
				CR ≥ 0.70	VE ≥ 0.50	
PAS				0.96	0.92	Good Reliability
	PAS_1	0.95	0.14			Good Validity
	PAS_2	0.94	0.18			Good Validity
	PAS_3	0.98	0.05			Good Validity
PD				0.79	0.73	Good Reliability
	PD_1	0.97	0.65			Good Validity
	PD_2	0.87	0,38			Good Validity
	PD_3	0.70	0.72			Good Validity
PQ				0.89	0.82	Good Reliability
	PQ_1	0.89	0.02			Good Validity
	PQ_2	0.92	0.35			Good Validity
	PQ_3	0.95	0.54			Good Validity
	PQ_4	0.85	0.77			Good Validity
BL				0.88	0.75	Good Reliability
	BL_1	0.77	0.20			Good Validity
	BL_2	0.99	0.26			Good Validity
	BL_3	0.83	0.44			Good Validity
BA				0.94	0.80	Good Reliability
	BA_1	0.81	0.31			Good Validity
	BA_2	0.90	0.02			Good Validity
	BA_3	0.96	0.15			Good Validity
	BA_4	0.91	0.29			Good Validity
BI				0.90	0.76	Good Reliability
	BI_1	0.83	0.47			Good Validity
	BI_2	0.89	0.09			Good Validity
	BI_3	0.93	0.51			Good Validity
	BI_4	0.84	0.33			Good Validity

Source: research analysis with Lisrel (2011)

4.4   Hypothesis Testing

The results of testing the hypothesis proposed in this study briefly shown in Figure 2 below:

Figure 2
Basic Diagram Model - T Values
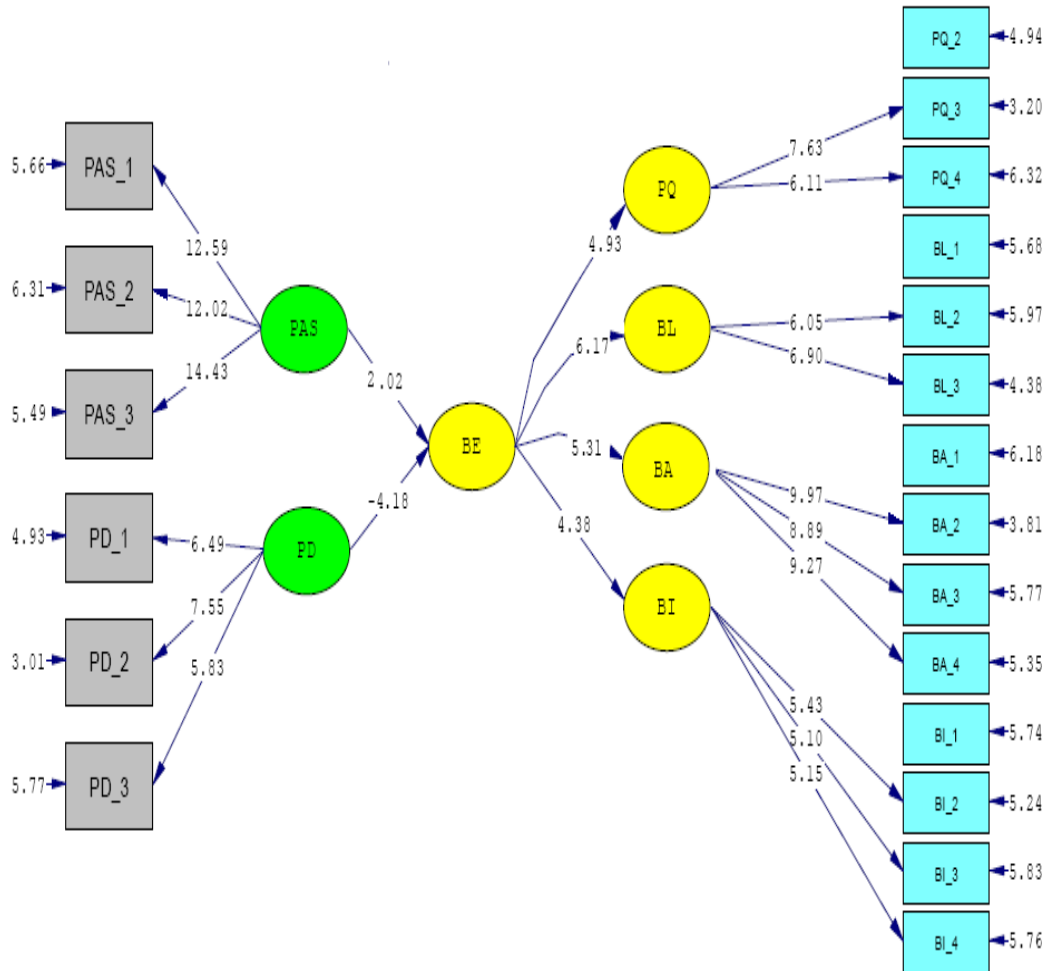
Based on the test results shown in Figure 2 above it can be concluded that hypotheses such as table 4 below:

Table 4
Hypothesis Results

Hypotesis	Path	Estimation	T-Value	Conclusion
1	PAS ⟶ BE	0.08	2.02	Significant (Hypothesis 1 Accepted)
2	PD ⟶ BE	-1.19	-4.18	Significant (Hypothesis 2 Accepted)

The decision is that the value of the t statistic = 2.02 > 1.96 so the null hypothesis is rejected and **H₁ is accepted**, it can be concluded that the perceived advertising spending positively affect the brand equity. **Thus hypothesis 1 is proven.**

The influence of price deals on brand equity is measured through indicators of AirAsia which often hold price promotions, offers reasonable prices and also the look of an attractive price offers. In this hypothesis is that the decision on the value of the t statistic = -4.18 is smaller than t table (-1.96), so that the null hypothesis is rejected and **H₂ is accepted**, it can be concluded that the price deals adversely affect the brand equity. Thus **hypothesis 2 is proven** that the price deals has affect on brand equity , but the effect is negative.

5 Conclusions

In this research, the results answer the problem formulation of the elements of the marketing communication mix, perceived advertising spending and price deals on brand equity at the low fare flight service users (low cost carrier) AirAsia. Some things can be summed up as follows:

> Advertising Spending perceived positive influence on brand equity. Advertising plays an important role in communication, availability of products, features, benefits, and establish a corporate image. Brand image generated by advertising in turn contributes to brand equity. Advertising expenditures (advertising spending) is almost always associated with the amount of funds issued by the company to finance advertising (actual expenses). In this study suggests that perceived advertising spending meant that the subjective perception of consumers about the amount of advertising spending by the companies not based on actual expenditures in nominal currency.

Price deals are not positively affect the brand equity. Price deal may not be a desirable way to build brand equity because only improve short-term performance by encouraging the sale of a moment and then switch to another brand.

It can be concluded that the ad impression AIRASIA spent by the company have a positive influence that can increase brand equity, while price deals have a negative relationship with equity

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