

CHAPTER 1

INTRODUCTION

1.1 Overview of Research

1.1.1 Company Profile

Lion Air is a subsidiary of PT. Langit Esa Oktagon (the LEO Group), which is part of the larger Lion Group (Lion Air, 2024). As a prominent domestic airline and disciplined low-cost carrier, Lion Air provides flights to value-conscious consumers who prioritize pricing, frequency of flights, and a broad route network across Indonesia (Lion Air, 2024).

Lion Air boasts two co-founders: Rusdi Kirana, who served as President Director until 2014 and remains actively involved in the Lion Group's long-term strategy, and Kusnan Kirana, a travel industry veteran since 1981 (Lion Air, 2024). Kusnan co-founded Lion Air in 1999 and has served as its President Commissioner since 2019, demonstrating his continued dedication to the airline's leadership and direction (Lion Air, 2024).

Indonesia is unique as an archipelago that necessitates air travel, and Lion Air Airline has one of the country's most extensive route networks (Lion Air, 2024). Lion Air Airline, Indonesia's largest domestic carrier, connects passengers across Indonesia and to select Asian destinations (Lion Air, 2024). Lion Air has developed quickly to become Indonesia's preferred domestic carrier since its first flight in 2000 (Lion Air, 2024).

Since 2018, Lion Air has strategically extended its passenger flights to particular foreign markets such as Singapore, Malaysia, Saudi Arabia, and China (Lion Air, 2024). In 2018, Lion Air carried 36.8 million passengers, which is over 35% of all air traveller's in the country, to the archipelago's islands, cities, and communities (Lion Air, 2024). Lion Air's business is also advantageously positioned for development as the only local carrier of cargo flights between Indonesian destinations (Lion Air, 2024).

As of September 2019, Lion Air Airline flew an average of 449 flights per day on 269 scheduled routes and 211 established routes to 41 domestic and 20

overseas destinations (Lion Air, 2024). Lion Air was the sole supplier of flights on 109 of its routes, with a market share of 50% or more on another 106 routes in terms of total route capacity (Lion Air, 2024). Lion Air currently operates 118 aircraft, which include 65 aircraft of Boeing 737-900ER, 38 aircraft of 737-800, 10 aircraft of Boeing 737 MAX 8, and 5 aircraft of Airbus A330-300 (Lion Air, 2024).

1.2 Research Background

In this era, people can freely travel to various parts of the world by air transportation (Keke, 2023). Air transportation's recognition in the 21st century has contributed to the economy and tourism (Keke, 2023). The tourism and aviation industries have grown at a rapid pace, unlike many other industries (Dimitriou, 2016).

According to data from (Mustajab, 2024), the number of air passengers in Indonesia reached 5.89 million in March 2024. This represents a decrease of approximately 3.82% compared to the previous month, which recorded 6.12 million passengers (Mustajab, 2024). In detail, the number of domestic air passengers was recorded at 4.54 million in March 2024 (Mustajab, 2024).

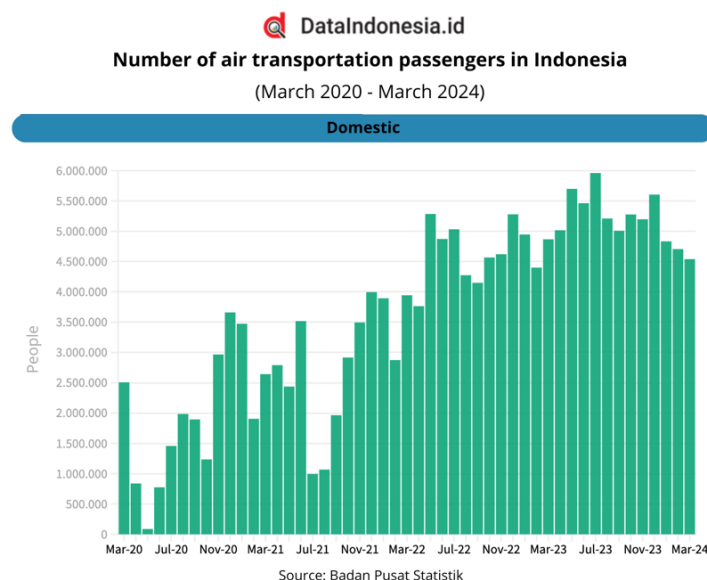


Figure 1.1 Number of Air Transportation Passengers in Indonesia

Source: <https://dataindonesia.id/>

The enhancement of the Indonesian aviation industry can be seen from the establishment of several state-owned (BUMN) or private airlines such as Garuda Indonesia, Air Asia, Lion Air, Batik Air, Sriwijaya Air, Citilink, and others (Nurchahyo et al., 2023). Lion Air is a low-cost airline that has been operating since 2000 (Ningsih, 2022). This low-cost carrier concept refers to cost efficiency by focusing on short trips from one place to another and not on long trips with various transit points (Megawati & Giam, 2022). Lion Air is now the largest privately owned airline in Indonesia and the second-largest low-cost airline in Southeast Asia (Ningsih, 2022). According to Pan & Truong (2021), younger adults, especially those aged 18-34, are the primary demographic that finds the affordability and simplicity of low-cost carriers appealing.

Therefore, service companies, are seeking to pursue new business models to stay competitive in the global market (Alam et al., 2021). In this regard, more than a few business firms find customer relationship management (CRM) to be a crucial organizational strategy for staying focused on their customers' needs and incorporating a customer-centered approach across the enterprise (Sofi et al., 2020).

According to Knorr (2019) and Karamata et al. (2017), CRM is the development of strategies that track revenue growth and service quality, both of which contribute to customer loyalty. Knorr (2019) highlights that CRM gathers customer requirements and spending habits in addition to sales and services. From the perspective of the airline industry, Barsy (2017) recommends that airline marketers adopt an integrated CRM approach to effectively gain market share and compete with other airlines.

According to Hanifah (2022), various strategies have been implemented by Lion Air Airline to improve performance, including utilizing a structured and continuous system for aircraft maintenance, employing a reliable operational team, and making prompt decisions to determine new rotations when obstacles arise at the airport, thereby mitigating the impact of flight delays. However, according to data from the 2023 Airline Index report released by Bounce (2023), Lion Air Airline is still among the lowest-ranked international airlines globally.



Figure 1.2 The Lowest-ranked International Airlines

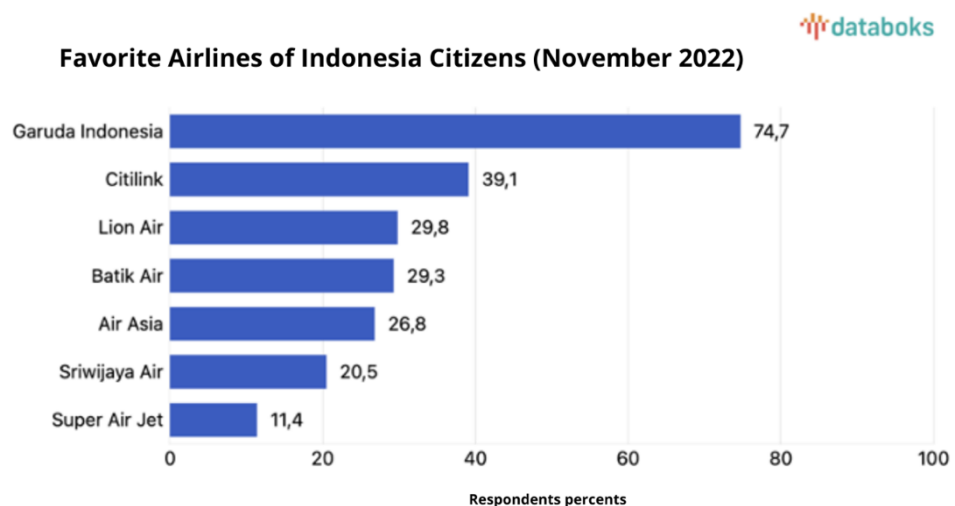
Source: <https://usebounce.com/>

When customers experience poor service quality and attribute it to internal, stable, and controllable company factors, they are more likely to develop negative perceptions and disengage from the brand, negatively impacting CRM (Weiner, 2000). Lion Air ranks second from the bottom with a score of 0.61 points, an on-time performance of 48.76%, and a cancellation rate of 20.01% (Bounce, 2023). Additionally, Lion Air receives low ratings for staff service and seat comfort, both scoring 2 out of 5 and a score of 1 out of 5 for food and entertainment (Bounce, 2023).

Firms are observing CRM not just to increase and boost income for a firm (Stokes, 2013), but also to ensure that CRM is at the center of all business methods (Herman et al., 2021). CRM is used by companies to understand their customers and the aspects that influence customer loyalty (Alam et al., 2021). In line with

Alam & Noor (2020), loyal customers are regarded as the key to success for many service firms. According to research conducted by Sampurna & Miranti (2022), CRM significantly affects customer loyalty.

According to Chonsalasin et al. (2020), customer loyalty is an important motivator for passengers' continued use of airline services. Customer loyalty is the factor that generates repeat purchases and profitability for airlines (Kumar Rai et al., 2014). Customers who have a favorite brand will continue purchasing it, fostering brand loyalty (Loureiro et al., 2012). According to data from Annur (2023), Lion Air ranked third among Indonesians' favorite airlines in 2022, with 29,8% of respondents, compared to Garuda Indonesia, which ranked first with number 74,7% of respondents. The data highlighting Lion Air's lower ranking in customer favorability compared to Garuda Indonesia suggests that Lion Air Airline may face challenges in maintaining and enhancing customer loyalty (Annur, 2023). Companies must learn the tendency of consumers' attitudes toward brands or products, which can either be positively or negatively impacted by its influence (Indrawati et al., 2023).

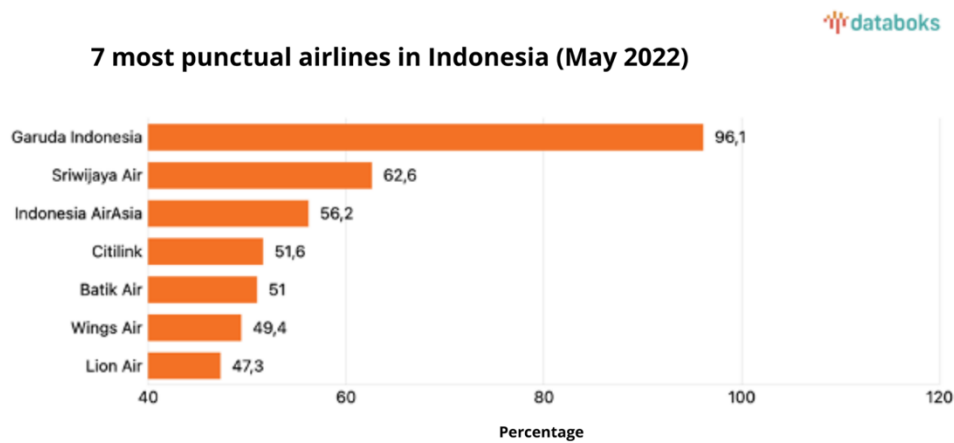


Source:
JakPat

Figure 1.3 Favorite Airlines of Indonesia Citizens

Source: <https://databoks.katadata.co.id/>

Patrick (2002) defined customer trust as thoughts, sentiments, emotions, or behaviors that arise when customers feel that a provider can be relied upon to act in their best interest when they give away direct influence. In the context of the relationship between producers and customers, Sirdeshmukh et al. (2002) define trust as one party's belief in the other's intent and behavior. Several studies have found that trust affects customer loyalty (Güreş et al., 2018; Kit, 2021; Leninkumar, 2017; Marakanon & Panjakajornsak, 2017; Moghadam et al., 2014; Sitorus & Yustisia, 2018).



Source:
Official Airline Guide

Figure 1.4 Most Punctual Airlines in Indonesia

Source: <https://databoks.katadata.co.id/>

According to Romero & Mitchell (2018), trust is a complex meta-construct with multiple constituent latent constructs, suggesting that consistent behaviors such as punctuality contribute to the overall trustworthiness of an organization. Lion Air Airline is acknowledged to be the least punctual airline with a score of 47.3%, placing last compared to Garuda Indonesia, which occupies the top spot with a score of 96.1% (Dihni, 2022). Meanwhile, Punctuality is a key factor in attracting new customers and retaining current ones (Abdelghany et al., 2004). Rocha e Oliveira et al. (2012) also state that airline punctuality and safety are important concerns for the flying public.

Most research conducted in the aviation industry involves only customer loyalty and customer relationship management variables, such as the studies by Law (2017) and Demo et al. (2018). Without realizing it, trust is essential for developing and sustaining long-term customer relationships, leading to increased customer loyalty (Oluwabiyi et al., 2022). Customer trust influences the longevity of relationships between individuals or companies based on confidence in promises and trust in the counterpart (Kevin & Anandya, 2021). Furthermore, the research gap or the novelty of this study is using customer trust as the moderating variable. This customer trust is seen as a fundamental factor in determining the success of long-term relationships with customers (Menidjel & Bilgihan, 2022). A study by Oh & Kim (2014) states that the reliability of information is a key variable influencing customers' product purchase behavior, and when information receivers develop strong trust in the information source, it is possible to witness changes in their attitude toward the direction provided by the information.

Therefore, after the novelty explained above, this study will be duplicated from research conducted by Alam et al. (2021) in the banking sector. The research from Alam et al. (2021) found that all CRM components (customer orientation, customer advocacy, and customer knowledge) except customer engagement positively impact customer loyalty. Moreover, customer trust only moderates the relationship between customer knowledge and customer loyalty, whereas it does not moderate the relationship between other CRM components and customer loyalty (Alam et al., 2021). Considering this, the author is interested in investigating how Lion Air's CRM components affect customer loyalty in the aviation industry and whether customer trust moderates this relationship. Therefore, the author proposes further research with the following title: **"THE RELATIONSHIP BETWEEN CUSTOMER RELATIONSHIP MANAGEMENT (CRM) AND CUSTOMER LOYALTY: THE MODERATING ROLE OF CUSTOMER TRUST (CASE STUDY ON LION AIR AIRLINE IN INDONESIA)"**

1.3 Problem Statement

Lion Air Airline is one of the largest private airlines in Indonesia (Ahdiat, 2023), yet it consistently ranks low in passenger preference which indicates bad customer loyalty. This is largely attributed to its poor punctuality record, which has eroded customer trust. Consequently, there is a strong indication of deficiencies in Lion Air's customer relationship management since Lion Air Airline receives low ratings for staff service, seat comfort, food, and entertainment.

Based on the research background that has been explained, the author aims to examine the relationship between Customer Relationship Management (CRM) and Customer Loyalty moderated by Customer trust. To this end, several research questions have been formulated as follows:

1. Is there a relationship between customer knowledge and customer loyalty?
2. Is there a relationship between customer orientation and customer loyalty?
3. Is there a relationship between customer advocacy and customer loyalty?
4. Is there a relationship between customer engagement and customer loyalty?
5. Is there a relationship between customer trust and customer loyalty?
6. Does customer trust moderate the relationship between customer knowledge and customer loyalty?
7. Does customer trust moderate the relationship between customer orientation and customer loyalty?
8. Does customer trust moderate the relationship between customer advocacy and customer loyalty?
9. Does customer trust moderate the relationship between customer engagement and customer loyalty?

1.4 Research Objective

The objective of this study is to determine both the relationship between CRM components (customer knowledge, customer orientation, customer advocacy, and customer engagement) and customer loyalty, as well as the moderating effect of the customer trust variable in the relationship at Lion Air Airline. Based on the research questions above, several research objectives are outlined as follows:

1. To determine the relationship between customer knowledge on customer loyalty.
2. To determine the relationship between customer orientation on customer loyalty.
3. To determine the relationship between customer advocacy on customer loyalty.
4. To determine the relationship between customer engagement on customer loyalty.
5. To determine the relationship between customer trust on customer loyalty.
6. To determine the moderating effect of customer trust on the relationship between customer knowledge and customer loyalty.
7. To determine the moderating effect of customer trust on the relationship between customer orientation and customer loyalty.
8. To determine the moderating effect of customer trust on the relationship between customer advocacy and customer loyalty.
9. To determine the moderating effect of customer trust on the relationship between customer engagement and customer loyalty.

1.5 Research Purpose

1.5.1 Theoretical Aspects

The author hoped this research could provide knowledge and enrich the science in the field of consumer behavior in marketing, especially those related to customer loyalty and customer trust in customer relationship management in Indonesia. After obtaining the results, researchers can use them as references for further research.

1.5.2 Practical Aspects

This research aims to provide knowledge about the consumer behavior of Lion Air Airline customers. In addition, this research can be used by Lion Air Airline as input for the future improvement.

1.6 Writing Systematic

a. CHAPTER I: INTRODUCTION

This chapter will explain the background of this research and find out the problems that will be carried out in this research. This chapter will present the company profile, background, problem formulation, research question, research objectives, and research benefits.

b. CHAPTER II: LITERATURE REVIEW

This chapter will explain the theory used in this research of each variable, and this chapter will contain the research theory, past research, research framework, and research hypothesis.

c. CHAPTER III: RESEARCH METHODOLOGY

This chapter will explain the method used in this research which contains research characteristics, operationalization of variables and measurements, scale, research stage, population and sampling, data collection method, validity and reliability, and data analysis technique.

d. CHAPTER IV: ANALYSIS AND DISCUSSION

In this chapter, the answer to the formulation problem of this research and a discussion or analysis of the research results will be provided.

e. CHAPTER V: CONCLUSION AND SUGGESTION

This chapter will provide the problem's solution, a discussion of this study, and provide the answers to research questions, then become a tool related to research benefits.