# **INTERNATIONAL SEMINAR & COMPANY VISIT**

**THE IMPACT OF THE INCREASE IN FLIGHT TICKET PRICES  
AND THE TERMINATION OF FREE BAGGAGE POLICY ON AIRPORT BUSINESS**

**Case Study: Halim Perdana Kusuma Airport, Raja Haji Fisabilillah Airport, Husein Sastranegara International Airport, Kualanamu International Airport**

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**TABLE OF CONTENTS**

**TABLE OF CONTENTS i**

**Abstract ii**

**CHAPTER I PRELIMINARY 1**

Background 1

Research Questions 3

Research Purpose 3

Research Benefits 3

Research Limitation 4

**CHAPTER II LITERATURE REVIEW 5**

The Relation between Price and Loyalty 5

Demand 5

Previous Research 5

**CHAPTER III METHODS 8**

* 1. Location 8
  2. Data Source 8
  3. Data Collection 8
  4. Population & Sample 8
  5. Data Analysis Technique 8

**CHAPTER IV RESULTS AND ANALYSIS 9**

* 1. Passenger Number 9
  2. The Impact Analysis 11

**CHAPTER V CONCLUSION 15**

* 1. Conclusion 15

**BIBLIOGRAPHY 16**

**ABSTRACT**

Transportation is essential in facilitating the the economy. It influences all aspects of the life of the nation, including strengthening relations between nations. Transportation is important, as reflected by its critical role in supporting people and goods mobility. In Indonesia, the Low-Cost Carrier (LCC) airline has many routes and passengers. For example, at Husein Sastranegara International Airport Bandung, there are 35 domestic flights. Thirty-two of them are LCC airlines, and 4 out of 7 international flights are LCC airlines.

Previously, all of the domestic flights used to provide a free baggage service to their passengers. However, at the beginning of 2019, Lion Air and Wings Air airlines—which are considered LCC airlines—terminated the free baggage policy and replaced it with prepaid baggage. It is said to have resulted in a decrease in passengers. Additionally, after the increase in ticket prices during the Christmas and New Year peak seasons, ticket prices did not go back to normal, adding another cause of the decreasing customers of airport services.

This research takes place at PT Angkasa Pura II’s branches, specifically at Halim Perdanakusuma Airport (HLP) in Jakarta, Raja Haji Fisabilillah Airport (TNJ) in Tanjung Pinang, Husein Sastranegara International Airport (BDO) in Bandung, and Kualanamu International Airport (KNO) in Medan.

This research uses secondary data collected using the documentary method by processing the data sourced from PT Angkasa Pura II's branches, which are the object of this research. The population in this research is the recorded number of passengers at the airports. This research sample is the number of passengers from January to June 2017, 2018 and 2019. This research's data analysis technique is the descriptive model; data will be presented in tables and graphs.

This research found that all sampled airports experience the same impact due to the increase in flight ticket prices and free baggage termination policy. Another impact is the decrease in passengers' number, with Raja Haji Fisabilillah Airport (TNJ) having the largest decrease amounting to 7,844 pax or 33.4% in February. The number of aircraft movements also decrease, with Kualanamu International Airport (KNO) having the largest decrease amounting to 1,876 flights or 27.2% in May. Compared to aircraft movements, the decreasing number of passengers is more significant. The largest decline in passenger numbers is at 33.4%, where it happens at airports with domestic flights only.

Keywords: Increase in Flight Ticket Prices, Free Baggage Termination, Airport, Low-Cost Carrier (LCC), Domestic, International

**CHAPTER I**

**BACKGROUND**

**Issue Background**

Transportation is essential in facilitating the circle of the economy. It influences all aspects of the life of the nation, including strengthening relations between nations. Transportation is important, as reflected by its critical role in supporting people and goods mobility.

Meanwhile, transportation also plays a role as a support and driver for the growth of potential but undeveloped regions to increase and equalize development. By recognizing the transportation role, flights must be arranged in a unified national transportation system to meet the needs and the availability of transportation services. It must ensure its safety, speed, continuity, order, convenience, and efficiency at a reasonable and affordable cost. Law No. 1 of 2009 on Aviation states that aviation is part of the national transportation system with the characteristics of being able to move quickly, using high technology, having high capital intensity, having a reliable management, and needs a guarantee of optimal safety and security, requires an effective and efficient development of roles and potentials, efficient, as well as helps creating a stable and dynamic national distribution pattern.

One factor that influences the realization of a reliable and integrated national air transportation system is the 'airport's management facilities and infrastructures. Airports according to Law No. 1 of 2009 on Aviation Article 1 Point 33 is:

"Areas on land and/or waters with certain borders as a place for aircraft landings and takeoffs, passengers boarding and disembarking, goods loading and unloading, and intermodal transportation, equipped with aviation safety and security facilities as well as basic and other supporting facilities."

One of the airport concession activities is airport services. An airport business entity can hold it for commercially managed airports after obtaining permission from the minister. Article 234 Point 1 in Law No. 1 of 2009 regulates airport business entities' responsibility and organizing units. The responsibility of airport management is:

1. To provide airport facilities that are operationally feasible as well as maintaining them.
2. To maintain and improve personnel's competence in maintaining and operating airport facilities.
3. To provide services to customers according to the service standards set by the minister.
4. To maintain and improve airport safety, security, continuity, and comfort.
5. To maintain and improve airport security.

An airport business entity is a business actor in services as referred to in Article 1 Point 3 in Law No. 8 of 1999 on Consumer Protection. A business actor is every individual or business entity, whether it is a legal or non-legal entity, who establishes and conducts business activities within the jurisdiction of the Republic of Indonesia, individually or jointly, in various economic fields through agreements. Still relating to business actors, according to Article 1 Point 3 in Law of Consumer Protection, business actors are companies, corporations, state-owned enterprises, cooperatives, importers, traders, distributors, and others.

Airport organizers are state-owned enterprises because they own all or part of their capital through direct participation derived from separated state assets (The Minister of State-Owned Enterprises, Instruction No. 05/2008, Article 1 Point 2). Inseparable state wealth originates from the state budget plan to be used as state capital participation in company and/or public company and other limited companies (Law No.19 of 2008, Article 10 Point 10). The airport organizers in Indonesia are PT Angkasa Pura I and PT Angkasa Pura II, state-owned enterprises assigned by the government to manage airport businesses in Indonesia.

In Indonesia, the Low-Cost Carrier (LCC) airlines have many routes and passengers. For example, at Husein Sastranegara International Airport Bandung, 32 of 35 domestic flights were LCC airlines.. Meanwhile, 4 of 7 international flights are LCC airlines. In Indonesia, the Low-Cost Carrier (LCC) airline has many routes and passengers.

Previously, all of the domestic flights used to provide a free baggage service to their passengers. However, at the beginning of 2019, Lion Air and Wings Air airlines—which are considered LCC airlines—terminated the free baggage policy and replaced them with prepaid baggage. It is said to have resulted in a decrease in passengers. Additionally, after the increase in ticket prices during the Christmas and New Year peak seasons, ticket prices did not go back to normal, adding another cause of the decreasing customers of airport services.

Based on the explanation above, the topic discussed is "The Impact of The Increase in Flight Ticket Prices and The Termination of Free Baggage Policy for Airport Business."

**Research Questions**

Based on the background above, the research questions are:

1. What is the trend on the customer of airport services after the termination of free baggage service and the increase in ticket prices during the Christmas and New Year peak seasons until now?
2. What is its impact on the number of customer in domestic and international airports?
   1. **Research Purpose**

The purpose of this research is:

1. To get an overview of the impact of the termination of free baggage service and the increase in ticket prices during the Christmas and New Year peak seasons until now.
   1. **Research Benefits**

The benefits of this research are:

1. To determine the trend on the customer of airport services after the termination of free baggage service and the increase in ticket prices during the Christmas and New Year peak seasons until now.
2. To determine the impact on the number of customers in domestic and international airports.
   1. **Limitation of the Problem**

The research objects are limited to four airports managed by PT Angkasa Pura II, including:

1. Halim Perdanakusuma Airport (HLP)
2. Raja Haji Fisabilillah Airport (TNJ)
3. Husein Sastranegara International Airport (BDO)
4. Kualanamu International Airport (KNO)

**CHAPTER II**

**LITERATURE REVIEW**

1. **The Relations between Price and Loyalty**

Price is one of the most flexible marketing mix elements that can be quickly adjusted based on specific product and service characteristics. Price determination is most effective when harmonized with other marketing mix elements, such as product or service, place, and promotion. (Dovaliene and Virvilaite, 2008, 66 – 73). Price is the only marketing mix element that brings income to an enterprise. (Ostaseviciute and Sliburyte, 2008, 97 – 103).

Satisfaction judgments and loyalty directly influence price acceptance. Furthermore, price fairness indirectly influences price acceptance through customer satisfaction and loyalty. (Consuegra, Molina and Esteban, 2007, 459 – 468).

1. **Demand**

The quantity demanded of any goods is the amount of the good that buyers are willing and able to purchase. The law of demand claims that, other things being equal, the quantity demanded of a good falls when the price of the good rises. (Mankiw, Principles of Economics 8th, 2016)

It can be concluded that there have been no studies that examine the impact of the increase in ticket prices and the termination of free Baggage service on airport service customers.

1. **Previous Research**

Based on the research of Wiyono and Dwi Hastjarja (2012), it was found that:

1. Price fairness has a significant positive effect on customer satisfaction. It indicates that the Lion Air customers will be more satisfied with a reasonable or affordable ticket price.
2. Customer satisfaction has a significant positive effect on customer loyalty. It indicates that if the customer's satisfaction with Lion Air increases, the loyalty to Lion Air will also increase.
3. Price fairness has a significant positive effect on customer loyalty. It indicates that the fairer and the more affordable Lion Air's ticket prices are, the more loyalty for the airline increases.
4. Customer satisfaction has a significant positive effect on price acceptance (receipt of price/tariff). It is due to Lion Air passengers' satisfaction with the ticket prices/rates offered by Lion Air companies.
5. Customer loyalty has a significant effect on price acceptance. It indicates that loyal Lion Air passengers will accept the ticket prices/fares to use the Lion Air flight again.

Based on the research of Made (2015) entitled "Promotional and Price Effects on Purchasing Decisions on Suara Merdeka Daily Mail Letter", it was stated that "the value of t on price variable (12,249) > t-table (1,984). Therefore, Ho is rejected and Ha is accepted, meaning that price influences purchasing decisions variables".

Based on the research of Banuara and Purba (2017) entitled "Analysis of the Aviation Industry in Indonesia in the Periode of 2003-2015 based on Domestic Passenger Growth and the Strategic Implication for Airlines and Government", it was found that:

1. The airfare yield (YIELD) is the most significant variable, and it positively affects the growth of domestic passengers. The hypothesis stating that the level of airfare yield affects the number of domestic passengers is proven to be correct. When the airfare yield increases, the number of domestic passengers will also increase. This conclusion is different from the law of demand, which states that if the price rises, the demand will decrease. Because the variable airfare used is the average for the whole industry over a period of twelve years or is aggregate, where the time dimension in the tariff changes runs gradually it still has a positive effect in the long run. It is important to manage the air tariff increase periodically or gradually to avoid a negative impact on the growth of domestic passenger.
2. Air traffic (AT) has no significant effect on the increase in domestic passengers because it is not the main factor of the research but a supporting factor on the supply side. If the airfare is affordable for domestic passengers, it will create higher demand. The growth of demand will attract airlines to provide more aircraft to meet demands. The rule of thumb in the airline industry is, if the seat load factor has reached 80%, it is the signal for airlines to increase flight frequency because of a decrease in the service level due to rejected passengers.
3. Per capita income (INC) of the Indonesian population is not significant to the growth of domestic passengers, meaning the per capita income is not the main factor that is significant to increase the number of domestic passengers in Indonesia. It can be seen, for instance, when the growth per capita decreased by 5.34% but the number of passengers increased by 4.12% in 2013.

**CHAPTER III**

**RESEARCH METHODOLOGY**

* 1. **Location**

This research took place at the PT Angkasa Pura II Company branches, namely:

1. Halim Perdanakusuma Airport (HLP) in Jakarta
2. Raja Haji Fisabilillah Airport (TNJ) in Tanjung Pinang
3. Husein Sastranegara International Airport (BDO) in Bandung
4. Kualanamu International Airport (KNO) in Medan
   1. **Data Source**

This research used secondary data.

* 1. **Data Collection**

Data were collected using the documentary method by processing the data sourced from PT Angkasa Pura II's branches, which are the object of this research.

* 1. **Population & Sample**

The population in this research is the number of passengers at:

1. Halim Perdanakusuma Airport (HLP),
2. Raja Haji Fisabilillah Airport (TNJ),
3. Husein Sastranegara International Airport (BDO, and
4. Kualanamu International Airport (KNO).

This research sample is the number of passengers from January to June 2017, 2018 and 2019.

* 1. **Data Analysis Technique**

This research's data analysis technique is the descriptive model; data will be presented in tables and graphs.

**CHAPTER IV**

**ANALYSIS AND RESULT**

* 1. **Passenger Number**

The passenger movements include arrival, departure, and transit based on the secondary data collection on aircraft and passenger movements. From the courtesy of PT Angkasa Pura II, the number of passengers always increased from year to year before 2019.

1. Halim Perdanakusuma Airport (HLP)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **HLP** | 2017 | | 2018 | | 2019 | |
| Flight | Passenger | Flight | Passenger | Flight | Passenger |
| Movement | Pax | Movement | Pax | Movement | Pax |
| Jan | 6,483 | 552,795 | 7,015 | 691,205 | 4,894 | 551,818 |
| Feb | 6,002 | 468,822 | 6,117 | 613,070 | 4,482 | 476,503 |
| Mar | 6,987 | 566,531 | 6,921 | 692,266 | 5,141 | 539,417 |
| Apr | 6,469 | 562,714 | 6,684 | 686,737 | 4,908 | 495,556 |
| May | 6,857 | 613,940 | 6,387 | 605,148 | 4,650 | 430,087 |
| Jun | 6,299 | 536,650 | 5,818 | 630,066 | 5,133 | 560,022 |

*Source: PT Angkasa Pura II*

1. Raja Haji Fisabilillah Airport (TNJ)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **TNJ** | 2017 | | 2018 | | 2019 | |
| Flight | Passenger | Flight | Passenger | Flight | Passenger |
| Movement | Pax | Movement | Pax | Movement | Pax |
| Jan | 268 | 28,029 | 424 | 30,022 | 360 | 26,503 |
| Feb | 225 | 22,731 | 447 | 38,982 | 375 | 25,961 |
| Mar | 313 | 25,114 | 469 | 32,409 | 408 | 24,565 |
| Apr | 292 | 26,084 | 469 | 32,284 | 376 | 23,611 |
| May | 319 | 25,581 | 481 | 29,617 | 402 | 23,317 |
| Jun | 262 | 25,532 | 428 | 33,965 | 381 | 29,830 |

*Source: PT Angkasa Pura II*

1. Husein Sastranegara International Airport (BDO)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **BDO** | 2017 | | 2018 | | 2019 | |
| Flight | Passenger | Flight | Passenger | Flight | Passenger |
| Movement | Pax | Movement | Pax | Movement | Pax |
| Jan | 2,449 | 309,130 | 2,801 | 343,179 | 2,389 | 305,721 |
| Feb | 2,189 | 251,200 | 2,470 | 307,930 | 2,067 | 262,259 |
| Mar | 2,230 | 274,113 | 2,805 | 339,687 | 2,257 | 286,711 |
| Apr | 2,232 | 274,887 | 2,752 | 350,353 | 2,202 | 268,565 |
| May | 2,236 | 275,368 | 2,427 | 283,794 | 2,152 | 235,336 |
| Jun | 2,188 | 250,127 | 2,594 | 344,862 | 2,318 | 314,393 |

*Source: Angkasa Pura II Company*

1. Kualanamu International Airport (KNO)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **KNO** | 2017 | | 2018 | | 2019 | |
| Flight | Passenger | Flight | Passenger | Flight | Passenger |
| Movement | Pax | Movement | Pax | Movement | Pax |
| Jan | 6,899 | 874,237 | 7,337 | 953,285 | 5,625 | 766,515 |
| Feb | 6,064 | 709,090 | 6,275 | 802,312 | 4,690 | 611,820 |
| Mar | 6,720 | 806,255 | 6,997 | 895,302 | 5,342 | 656,330 |
| Apr | 6,761 | 793,517 | 6,974 | 877,228 | 5,098 | 601,666 |
| May | 7,200 | 793,230 | 6,356 | 791,722 | 4,852 | 533,755 |
| Jun | 7,417 | 803,168 | 6,959 | 988,124 | 5,479 | 712,023 |

*Source: PT Angkasa Pura II*

* 1. **The Impact Analysis**
     1. **The Trend on Aircraft Movements and Passengers**

An analysis of the number of passengers after the termination of free baggage policy and the increase in ticket prices on the Christmas and New Year peak season was conducted. The impacts' analysis is classified into the number of aircraft movements and passengers at the sampled airport. The result of the data analysis are as follow :

1. The Impact on the Number of Passengers

*Chart 4.1. Passenger Number*

From the data, we can conclude that the increase in ticket prices and the termination of the free baggage policy, in general, has an impact on the number of passengers at the sampled airports. The largest decrease in the passenger numbers occurs in Raja Haji Fisabilillah Airport (TNJ), where the airport experiences a decrease by 7,844 pax or 33.4%. In February 2019, there are only 61 flight movements, meaning a decrease in aircraft movements amounting to 16.1%. What likely happened is the number of flights with low occupancy rates.

1. Impact for Flight Number Movements

*Chart 4.2. Number of Aircraft Movements*

From the data, it can be concluded that the increase in ticket prices and the termination of free baggage policy generally impact the aircraft movements. The largest decrease in the number of aircraft movements occurs in Kualanamu International Airport (KNO), where the airport experiences the largest decrease in the number of aircraft movements amounting to 1,876 flights or 27.2%. In May, the decrease also amounts to 275,562 pax or 28.9 %. The airport's international flights do not significantly affect the number of passengers in Kualanamu International Airport because the ticket price fluctuations and the termination of free baggage policy do not occur at international routes.

From the explanation above, we can conclude that a more significant decrease occurs in the number of passengers compared to aircraft movements. The largest decrease in the number of passengers reaches 33.4%.

* + 1. **The Impact Differences between Domestic and International Airports**

Domestic and international airports experience the same impact caused by the increase in ticket prices and the termination of free baggage policy in Low-Cost Carrier airlines. However, we can see that a more significant decrease occurs in the number of total passengers than the aircraft movements. The largest decrease in passengers' number reaches 33.4% where a significant decline occurs at airports with domestic flights only since most ticket prices fluctuation happens in domestic flights.

Up until now, domestic flights dominate most of the airports in Indonesia, including the four sampled airports in this paper, where domestic flights dominate more than 50 % of daily flights. The increase in ticket prices and the termination of free baggage policy in 2019 impact these airports. In minimizing the same impacts in the future, synergy is needed to increase international flights, especially in Indonesia's biggest airports.

**CHAPTER V**

**CONCLUSION**

* 1. **Conclusion**

From the results above, we can conclude that:

* + - 1. All of the sampled airports experience the same impact from the increase in ticket prices and free baggage policy termination.
      2. Another impact is the decrease in the number of passengers, with Raja Haji Fisabilillah Airport (TNJ) experiencing the largest decrease, amounting to 7,844 pax or 33.4% in February.
      3. The number of aircraft movements also decreases, with Kualanamu International Airport (KNO) experiencing the largest decrease, amounting to 1,876 flights or 27.2% in May.
      4. A more significant decrease occurs in the number of passengers compared to aircraft movements. The largest decline in passengers' number reaches 33.4%, where a significant decline occurs at airports with domestic flights only.

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