

## ABSTRACT

*Before the deregulation decree on the operations of airline companies in 1999, there were only five operators. After the deregulation, more companies came into existence. Data in 2011 showed the number of domestic carriers had become 18 companies. This development created competition among airlines which tried to expand their market share. Competition in the airline market is a form of oligopoly competition within a demographic development. Therefore, the accepted business strategy used to expand was the creation of low cost airlines or low cost carriers (LCC).*

*This study attempts to analyze the effects of tariff, service quality, and physical evidence (appearance), either simultaneously or partially, on the retention of domestic passengers in the low cost carriers.*

*Measurements of the study variables were taken while determining the extent of relationship and influence between the variables. Descriptive analysis is used to observe and to summarize the answers of the interviewed passengers. Verification analysis is used to test the hypotheses using the structural equation modeling (SEM). The unit of analysis is a commercial flight passenger. The number of samples are in groups (clusters), and the selection of samples is by simple random sampling, as many as 466 samples.*

*There is a proven close relationship between tariff, service quality and physical evidence. Tariff is determined more influential than service quality, which in turn is better than physical evidence. From interviews, the service quality, especially in the check-in process and during the time waiting for boarding, is considered more important than the physical evidence. Complaints are more about service quality and almost none about physical evidence.*

*In judging the influence of tariff, service quality and physical evidence on the retention of passengers, the influence of physical evidence has a low effect. Passengers do not consider physical evidence important. Nevertheless, physical evidence is needed for flight information and ticket service, and during the flight, because then it can not be separated from service quality.*

*Passengers on business are having the same views and opinion with passengers on non-business regarding tariff, service quality, and physical evidence that could have effects on passenger retention by the domestic airlines. There are no significant differences in their comments and complaints, whether they are on business or non-business when choosing and taking a flight on a domestic carrier.*

*Key words : LCC airlines, tariff, service quality, physical evidence, retention of passengers.*