

Testimony of Professor Vicki G. Morwitz
Presented to the United States Senate Subcommittee on Consumer
Protection, Product Safety, and Data Security
“Protecting Consumers from Junk Fees”
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Good morning. My name is Vicki Morwitz. I’m the Bruce Greenwald Professor of Business and Professor of Marketing at Columbia Business School at Columbia University.

Thank you for inviting me to testify today on the issue of “Protecting Consumers from Junk Fees.” I am a consumer psychologist with expertise in how consumers process additional fees and surcharges, a topic I have studied for over 25 years. I have discussed this research in my classes, and I have given research seminars on this topic at universities around the world.

In my testimony today, I will discuss two pricing practices that I have studied in depth that are central to the discussions taking place in the Senate Commerce committee regarding junk fees: partitioned pricing and drip pricing. The academic research on both partitioned and drip pricing makes clear that consumers make better informed decisions when firms use all-inclusive pricing.

My co-authors and I coined the phrase and defined partitioned pricing as a strategy where firms decide to divide a product's price into two or more mandatory parts, a base price for the main product and one or more mandatory surcharges, rather than deciding to charge a single, all-inclusive price.¹ For example, many hotels these days assess a mandatory fee on top of the daily room rate – these are sometimes called resort fees or facility fees or destination fees and range from \$20 to over \$50 a night on top of the daily room rate. And many rental car agencies assess several mandatory fees

¹ Morwitz, Vicki G., Eric Greenleaf, and Eric Johnson (1998), “Divide and Prosper: Consumers’ Reactions to Partitioned Prices,” *Journal of Marketing Research*, 35 (4), 453-463.

on top of the daily rental rate such as concession recovery fees, customer facility fees, energy recovery fees, and vehicle licensing fees. And many ticketing agencies assess a variety of mandatory fees on top of the base ticket price – for example processing fees, booking fees, ticketing fees, venue fees, and delivery fees, even with the tickets will be delivered electronically.

In general, what research on partitioned pricing has shown is that when firms separate out mandatory surcharges versus assessing one all-inclusive price, consumers tend to underestimate the total price they will have to pay, and are often more likely to complete the purchase.² While these effects happen even when the surcharges are fully disclosed, the detrimental effects are even larger when the surcharges are hidden in the small print³ and when they are made more difficult for consumers to process such as when they are framed as a percent of the base price versus as a flat dollar amount⁴.

My co-authors and I have also studied a related pricing strategy called drip pricing⁵. Drip pricing is a pricing technique in which firms advertise only part of a product's price up front and reveal other charges later as shoppers go

² Greenleaf, Eric A., Eric J. Johnson, Vicki G. Morwitz, and Edith Shalev (2016), "The Price does not Include Additional Taxes, Fees, and Surcharges: A Review of Research on Partitioned Pricing," *Journal of Consumer Psychology*, 26 (1), 105-124; Kim, Hyeong Min (2006), "The Effect of Salience on Mental Accounting: How Segregation Versus Integration Of Payment Influences Purchase Decisions," *Journal of Behavioral Decision Making*, 19(4), 381–391; Lee, Yih Hwi and Cheng Yuen Han (2002), "Partitioned Pricing in Advertising: Effects on Brand And Retailer Attitudes," *Marketing Letters*, 13(1), 27–40; Morwitz, Vicki G., Eric Greenleaf, and Eric Johnson (1998), "Divide and Prosper: Consumers' Reactions to Partitioned Prices," *Journal of Marketing Research*, 35 (4), 453-463.

³ Sheng, Shibin, Yeqing Bao, and Yue Pan (2007) "Partitioning or Bundling? Perceived Fairness of the Surcharge makes a Difference," *Psychology & Marketing*, 24 (12), 1025-1041; Xia, Lan , Kent B. Monroe, and Jennifer L. Cox (2004), "The Price is Unfair! A Conceptual Framework of Price Fairness Perceptions," *Journal of Marketing*, 68(4), 1–15.

⁴ Kim, Hyeong Min (2006), "The Effect of Salience on Mental Accounting: How Segregation Versus Integration Of Payment Influences Purchase Decisions," *Journal of Behavioral Decision Making*, 19(4), 381–391; Morwitz, Vicki G., Eric Greenleaf, and Eric Johnson (1998), "Divide and Prosper: Consumers' Reactions to Partitioned Prices," *Journal of Marketing Research*, 35 (4), 453-463; Xia, Lan , Kent B. Monroe, and Jennifer L. Cox (2004), "The Price is Unfair! A Conceptual Framework of Price Fairness Perceptions," *Journal of Marketing*, 68(4), 1–15.

⁵ Santana, Shelle, Steven Dallas, and Vicki G. Morwitz (2020), "Consumers' Reactions to Drip Pricing," *Marketing Science*, 39 (1), 188-210.

through the buying process.⁶ Dripped fees can be mandatory or can be for optional items, but for today's testimony, I will focus on the dripping of mandatory surcharges.

Drip pricing is commonly used in industries like the ticketing industry. A consumer shopping for a ticket for a live event like a concert, a play, or a baseball game, typically first sees the price for different seats in the venue. After selecting a seat, as the consumer clicks through more web pages, they may come to learn about all the additional fees that I mentioned earlier. Eventually they see a total price that may be 30 or even 50 percent higher than the first price they saw – and when they see that total price, there may be under time pressure to complete the purchase as they may be shown a countdown clock that indicates they have to complete their purchase in just a few minutes, or they may be told there are only two seats left at that price. Other industries like the telecommunications industry, might first show the monthly plan rate, but then drip other mandatory fees such as universal connectivity charges, administrative service fees, access recovery fees, franchise fees, and more.⁷ And when a consumer shops for a TV/internet bundle from a cable television provider, they may first see an attractive base price offer for the bundle, but later learn there are also broadcast TV fees, set top box fees, regional sports fees, and TV connection fees that raise the price considerably.⁸

What research has shown is that when surcharges are dripped, consumers end up being more likely to buy a product that appears cheaper up front based only on the base price, but that is more expensive in total given the dripped mandatory fees. This happens because drip pricing makes the search process more difficult for consumers. Consumers also tend to buy more expensive products than they otherwise would have, such as a seat closer to the stage for a live event, when surcharges are dripped.⁹

⁶ <https://www.ftc.gov/news-events/events/2012/05/economics-drip-pricing>

⁷ <https://www.nojitter.com/monitoring-management-and-security/managing-telecom-expenses-dont-forget-fees>, accessed on June 5, 2023.

⁸ <https://www.techhive.com/article/579177/cable-bill-transparency-laws-havent-killed-sneaky-fees.html>

⁹ Blake, Tom, Sarah Moshary, Kane Sweeney, and Steve Tadelis (2021) "Price Salience and Product Choice," *Marketing Science*, 40 (4), 619-636; Santana, Shelle, Steven Dallas, and

Notably, these effects happen even when consumers are provided with a total price at the final stage of the transaction, before they complete their purchase. While in theory, they can cancel the purchase when they see that the total that is more expensive than they first thought, they often do not, because they tend to overestimate the costs of restarting search and underestimate the benefits of doing so, for example because they assume that the other providers also assess these same fees.¹⁰ Because of this, it is not enough to show the total price to avoid the detrimental effects of drip pricing. Research has also shown that these effects do not go away with purchase experience – for example, repeat ticket buyers are still affected by drip pricing, similar to first time buyers.¹¹

It is not because consumers are stupid or even careless that they are affected by the separation and dripping of mandatory surcharges. In general, consumers try their best to make good decisions for themselves and their families. But pricing practices like drip and partitioned pricing take advantage of the fact that we consumers have a lot going on in our lives – we are busy and can be distracted, and because of that we may not notice or appropriately consider all information important to that purchase decision, especially when that information is hidden in the small print, is presented in obscure language, or dripped late in the shopping process, and when we are put under time pressure with countdown clocks or receive scarcity cues such as that there are only a few items left at that price.

When firms use drip and partitioned pricing, it leads consumers to make decisions that differ from what they intended and that are against their own interest. Academic research has shown that partitioned and drip pricing leads consumers to spend more money than they intended to or needed to, and to make choices that do not reflect their true desires or preferences. These practices also put well-intentioned competitors who use all-in pricing at a competitive disadvantage as it makes their prices look more expensive

Vicki G. Morwitz (2020), "Consumers' Reactions to Drip Pricing," *Marketing Science*, 39 (1), 188-210.

¹⁰ Santana, Shelle, Steven Dallas, and Vicki G. Morwitz (2020), "Consumers' Reactions to Drip Pricing," *Marketing Science*, 39 (1), 188-210.

¹¹ Blake, Tom, Sarah Moshary, Kane Sweeney, and Steve Tadelis (2021) "Price Salience and Product Choice," *Marketing Science*, 40 (4), 619-636.

than their competitors who use these pricing techniques, even when their prices are actually cheaper in total.¹² What the research on these pricing practices also makes clear is that consumers and well-intentioned firms benefit when all-inclusive upfront pricing is used, rather than when fees are dripped later in the shopping process or disclosed in multiple parts.

As a scholar who has studied these pricing strategies for decades and who knows well how their use can be detrimental to consumers and to honest organizations, I strongly advocate that policy be promoted that addresses the partitioning and dripping of surcharges, like we commonly see in the ticketing, the telecommunication, the cable, the hotel, and the rental car industries, among others. These policies will benefit consumers if they require that upfront stated prices must be all inclusive – in other words that all mandatory fees must be included in the total price and that that the total price should be seen upfront. This is what academic research suggests will be most beneficial to consumers.

Thank you for the opportunity to appear today at this hearing. I am happy to answer any questions that you may have.

¹² Santana, Shelle, Steven Dallas, and Vicki G. Morwitz (2020), “Consumers’ Reactions to Drip Pricing,” *Marketing Science*, 39 (1), 188-210.