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[**Matt Palmquist**](http://www.strategy-business.com/Matt-Palmquist)

[](http://www.strategy-business.com/Matt-Palmquist)

Matt Palmquist is a freelance business journalist based in Oakland, Calif.

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**The Art and Science of Add-On Fees**

***Bottom Line****: Companies must find a balance between the luxuries customers will pay for and the necessities they expect.*

Few issues in recent years have [riled](http://www.nbcnews.com/id/39312281/ns/travel-travel_tips/t/flier-frustration-mounts-over-sky-high-airline-fees/) consumers as much as “add-on” charges. Want to stow a large suitcase on a plane? That’ll cost you. Looking for priority seating or a bit more legroom? You’ll have to pay extra. Some banks even tried charging fees for the use of debit cards, although they backtracked when irate customers began taking their business elsewhere.

Although often buried in the fine print, ancillary fees have blossomed into a big business. Airlines [made](http://www.nytimes.com/2012/09/23/travel/fleeced-by-fees-when-you-travel.html) more than US$3.3 billion from baggage charges in 2011, and raked in an additional $2.3 billion from reservation and cancellation fees. That same year, hotels brought in $1.85 billion from fees for bellhop and housekeeping services.

In light of how important extra charges have become to many firms’ revenue streams, the authors of a new [study](http://www.sciencedirect.com/science/article/pii/S0969698913001094) utilized consumer data related to U.S. airlines to explore which types of fees generated the most resentment among consumers. Airline carriers’ widespread unbundling of services—a move they undertook in part to offset increasingly intense competition and the rising costs of fuel—has become the subject of headlines and advertising campaigns around the world, with some companies touting their lack of such additional charges as a selling point to travelers.

The authors surveyed consumers about 25 different airline fees through a large travel agency and a social media hub dedicated to vacationing. They found that the reaction to ancillary fees varied widely. For example, consumers felt less betrayed when asked to pay extra for entertainment or Wi-Fi access on a flight, apparently accepting that these supplementary services can be counted as luxury items to be priced separately.

When airlines charged extra for baggage handling or more legroom, however, consumers bristled. Presumably, travelers view these services as a fundamental part of the airline fare. But the findings were even more nuanced: Passengers expressed far more resentment at being charged for having carry-on bags than for packing oversized suitcases. Consumers can forgive firms when their own excess results in additional costs, but begrudge companies that charge for services that had long been part of the base price.

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The authors found that customers angered by extra fees typically expressed their frustration by venting about the company or spreading negative reviews. Boycotts were less likely, although previous [research](http://ssrn.com/abstract=1350004) has suggested that when consumers pay more than they intended and blame the manufacturer, seller, or service provider for “hidden fees,” their affection for the brand plummets.

Managers at companies contemplating ancillary charges must carefully consider how many separate fees to use, and which combination will keep revenue flowing and minimize customers’ unrest. They should also consider branded [offerings](http://www.palgrave-journals.com/rpm/journal/v8/n2/abs/rpm200863a.html)—such as menus of differently priced packages that come with specified, well-defined privileges—to reinforce the consumers’ role in choosing what they want and strengthening the brand’s ability to provide it.

Source: From [“Free” to Fee: Acceptability of Airline Ancillary Fees and the Effects on Customer Behavior](http://www.sciencedirect.com/science/article/pii/S0969698913001094), by Sven Tuzovic (Pacific Lutheran University), Merlin C. Simpson (Pacific Lutheran University), Volker G. Kuppelwieser (NEOMA Business School), and Jörg Finsterwalder (University of Canterbury), *Journal of Retailing and Consumer Services*, Mar. 2014, vol. 21, no. 2