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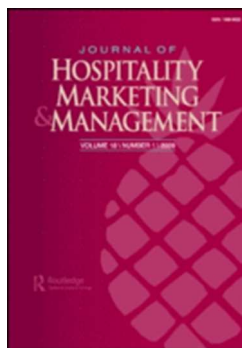
## One Night Or Many? Effects Of Amenity Charge Transparency On Consumer Reaction

By: Bidisha Burman, **Pia Albinsson**, and Eva Hyatt

### Abstract

This research examines how different levels of amenity charge transparency in hotel services affect consumers' prepurchase and postpurchase evaluations in low- and high-priced hotels. Results show that consumer responses to different levels of transparency of amenity pricing information on hotel websites vary from prepurchase to postpurchase across high- and low-priced hotels. Results support using a high amenity charge transparency strategy, especially for low-priced hotels. Managers should think beyond consumers' immediate purchase decisions and consider consumer postpurchase reviews and future repeat purchases.

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## Pre-purchase vis-à-vis Post-purchase Consumer Reaction to Different Levels of Amenity Charge Transparency

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Consumer Reactions to Amenity Charge Transparency

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### Introduction

Have you ever booked a hotel online and received an estimate of the hotel's nightly rate, only to find out upon arrival that there are possible additional charges associated with your stay? These charges could be a gym fee, a parking fee, an Internet usage charge, charges for local phone calls etc., making your actual hotel expense much higher than the original estimate. How do you feel about the hotel's honesty and ethics? Would you stay there again? This research attempts to examine these issues arising from amenity charge (non) transparency.

Fifty-seven percent of all travel reservations are currently made on the Internet, accounting for more than 148.3 million online bookings ("Internet Travel Hotel Booking Statistics"). This represents a dramatic increase from only 20 percent in 2005 (Salerno, 2005). According to recent research, 78 percent of the U.S consumers sampled self-reported that they typically use the Internet to search for hotels; however, only 67 percent of the study sample finished their booking online, while 26 percent finished their booking using the phone (Toh, DeKay, and Raven, 2011). Online travel sales have increased from \$93.8 billion in 2007 to over \$162 billion in 2012, of which about 39 percent is lodging ("Internet Travel Hotel Booking Statistics"). As consumers often search multiple travel websites before booking a hotel room, and frequently switch to the official hotel's website to finish their booking (often in order to collect loyalty program rewards or to avoid booking fees) (Toh, *et al.*, 2011), it becomes important for hotel managers to understand consumer evaluation of presented information.

Price and convenience are two major reasons why consumers choose to book travel related services online, a key fact marketers need to know to be successful online (O'Connor,

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2007). From the hotel marketer's point of view, price is an important factor in hotel revenue management practices and involves a myriad of variables that need to be taken into consideration, including: "competition, overall market demand, group business, weekday *versus* weekend stay patterns, city-wide events, and third party commission margins" (Maier, 2011, p. 4). Hotels may choose to use add-on fees such as resort fees to boost their profitability by 80-90 percent (Roe and Repetti, 2014). However, hotel marketers may strategically choose to reveal or hide (not openly disclosing) different components of price information to influence consumer decision making (Miao and Mattila, 2007). Many hotel marketers believe that they can influence consumers' price evaluations and judgments by manipulating the transparency of the price information they provide (Miao and Mattila, 2007). Since many travelers who choose to make their hotel bookings online are price sensitive (Toh, *et al.*, 2011), these practices can have a big impact on consumer choice. It is important for each hotel marketer to communicate a clear value proposition, as well as to differentiate the specific positioning of their hotel as compared to other similar hotels, not an easy task (Daun and Klinger, 2006). In addition, since "different consumer segments value different attributes in their product selection" (Maier, 2011, p. 4), it is equally challenging for consumers to evaluate different hotel offerings.

Clarity and transparency are fundamental requirements in communicating the value proposition for a hotel offering (Daun and Klinger, 2006). It is important to provide a clear, transparent message in terms of attributes, amenities, services, and prices. However, analysis of actual hotel messages shows that hotel ads and/or websites are not always transparent and hardly provide complete information to customers before their purchase decisions, especially in terms of pricing (Daun and Klinger, 2006). Revealing complete price information is a very important part of presenting the value proposition, but is this the best strategy for all hotel categories?

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While revealing price information may lead to favorable consumer perceptions of brand image and expectations from a hotel, there may also be adverse effects of such transparency. This is further complicated by different reactions to prices by different customer segments. Hotel customers who are willing to pay a high price for exclusivity and a better experience find credibility via high prices (Daun and Klinger, 2006), while low prices can contradict their service perceptions. For others, low prices may communicate more value.

Other than common classification systems like ‘stars’ to communicate quality, hotels also provide a wide range of information regarding functional attributes, along with other information related to value on their websites (e.g., testimonials and customer reviews). In addition, hotel marketers often use emotional appeals and visuals to tangibilize the offer and to reduce consumers’ pre-purchase risk perceptions (An, 2014; Mattila, 1999; Toh, *et al.*, 2011; Zeithaml, *et al.*, 1985). Research shows that to increase “stickyness” (e.g., getting direct bookings) hotel websites need to be highly informative and preferably offer best-rate guarantees as well as bonus frequency/loyalty points (Toh, *et al.*, 2011).

Since hotels often have individual charges attached to specific services or amenities in addition to the basic room rate, the price of a hotel stay may not always be a single component, and there can be differences across providers in the transparency of the presentation of these amenity prices. Although prior research shows that the way service organizations price their services and the way they present these prices to their customers affects consumer decision making, evaluation of the offer, and perceptions of the service provider (Shoemaker, 2003), there is limited understanding of the way hotel marketers can most effectively present separate price components to their target audiences. Therefore, the purpose of this research is to examine how different levels of amenity charge transparency presented on the hotel website affect consumer

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evaluation of the offering for high and low priced hotels. We examine consumers' value perceptions and purchase intentions as well as their post purchase evaluations of the hotel. Implications for hotel managers, as well as theoretical and public policy implications, are provided.

## Literature Review and Conceptual Development

### Information Transparency

Transparency refers to information visibility (Turilli and Floridi, 2009) and deals with the level of comprehension of the information presented (Walther, 2004). Information transparency has been defined as the degree of availability, visibility and accessibility of information (Zhu, 2002). Other research has focused on the quality of information and identified the following dimensions of transparency: relevance, accuracy, factuality, quantity, reliability and timeliness (Hofstede, 2003).

Information transparency is distinguished from information richness (Remsperger and Worms, 2000; Miao and Matilla, 2007). Miao and Matilla (2007) conceptualized information transparency from an information processing perspective as "a continuum that is a function of the degree of information sufficiency and the degree of information diagnosticity" (p. 536). In their study they measured the continuum based on consumers' ability to make an informed decision and the ease of comparing prices. Their findings suggest that for pricing information to affect consumers' price judgments it has to be perceived as both sufficient and useful.

This research focuses on price transparency, which is one of the most important dimensions of commerce transparency in the marketplace (Phillips and Meeker, 2000). The practice of rate and price transparency has become critical in online global distribution and channel management practices (Maier, 2011). It has been shown to improve consumer welfare

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(Lynch and Ariely, 2000), in that useful product and price information can aid decision-making (Tanford, *et al.*, 2010). Other research has shown that consumers expect that all of their out-of-pocket costs should be covered in the advertised price of a hospitality product, as it makes the decision-making process easier (Naylor and Frank, 2001). Miao and Matilla (2007) found that given identical pricing information, higher transparency is more persuasive. Although many hotels and travel sites seem to prefer an opaque pricing strategy, research has shown that consumers prefer itemized pricing (and may also tolerate higher prices when rates are transparent) (Tanford, *et al.*, 2011).

Inaccurate price expectations, therefore, often make unexpected charges at the end of a stay an unwelcomed surprise to consumers. One might then believe that such a negative experience of having to cope with unexpected charges for amenities (that the consumer thought were included) can lead to a negative evaluation of the overall experience, and possibly to negative online reviews as well. To further illustrate, research shows that the practice of adding a separate resort fee is not always noticed by the consumer during the booking process. Roe and Repetti (2014) found that 34 percent of hotel guests in Las Vegas were unaware whether their hotel would charge them a resort fee in addition to the room rate. Of the 42 percent that were aware of the resort fee, only 69.1 percent of them knew of the fee at the time of booking. Of the people who knew upon booking the majority found out on the website; the people who were not aware at the time of booking found out upon check-in (63.2 percent) or when reconfirming their reservation prior to arrival (31.6 percent), and 5.3 percent upon checking out. If consumers are not informed about a mandatory resort fee until check-in it may be difficult to find alternative lodging, and may then leave the hotel with an unfavorable review and feeling of distrust. Chan



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and Wong (2006, p. 144) find that from a customer's viewpoint, "fairness of the transaction is the success of hotel room rate pricing."

In the hospitality literature *rate transparency* has been defined as the ability of consumers to see the price for each night instead of an average rate or combined rate (Carroll and Sigauw, 2003; Rohlfs and Kimes, 2007). This ability has been shown to help consumer decision-making for online travel purchases as it give them greater control (Maier, 2011). Rohlfs and Kimes (2007) found that consumers prefer to be given full pricing information when booking hotel rooms, given that they evaluated the best available per night rate (or non-blended rate) as being more fair, acceptable, reasonable, and honest compared to a blended rate (the average of all nights that may be priced differently).

There are limited regulations and policies attached to the way hotels present their amenity charges on their webpages or advertisements. In 2012, the Federal Trade Commission (FTC) had sent warning letters to 22 operators to review their websites and ensure that their ads did not misrepresent the total price consumers could expect to pay ("FTC warns hotel operators," 2012; Hunter, 2012). The FTC also recently held a conference on 'drip pricing,' a pricing technique where firms advertise only a part of the product's price and reveal other charges as the consumer goes through the buying process ("FTC warns hotel operators," 2012). However, the FTC is more concerned with hotel practices that charge consumers a mandatory fee for amenities such as newspapers, pool facilities, Internet access, etc., sometimes referred to as a 'resort fee' ("FTC warns hotel operators," 2012). Further, in 2015, an FTC representative confirmed that as long as fees are revealed early in the booking process and included in the final price, thus giving the consumer the opportunity to abandon the reservation, they are acceptable and hotels do not have to add resort fees to advertised rates; that is, this practice is not a deceptive business practice

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(Martin, 2015). FTC Chairwoman Edith Ramirez promises that the agency is actively working with the travel industry to make significant improvements to how travel websites display resort fees and to ensure that consumers receive accurate pricing information before they make their reservations (Muschick, 2015).

Although our research does not deal with mandatory fees (e.g., resort fees), it does focus on fees that may apply to consumers upon usage of certain amenities and services. Given the small steps that the FTC has taken as far as price transparency of hotel amenities are concerned, our research contributes considerably to providing insights on consumer evaluation of hotels both prior to purchase as well as post purchase depending on the transparency of these charges.

### **Price Cues in Consumer Decision Making**

Thaler's transaction utility theory explains the effect price has on purchase intention. The theory states that the transaction utility of a purchase drives the sacrifice component in a purchase decision. Transaction utility is a consumer's reaction to the actual price of a product offering relative to his or her price expectations. Incremental utility will drive consumers' opinion of a "good deal" and lead to feelings of pride and competence (Thaler, 1985). Therefore, price information is a cue that may be used in an advertisement as a tool to increase favorable attitudes and purchase intentions.

Price has been examined in consumer research as an extrinsic cue for estimating product quality for a long time (Leavitt, 1954; Rao and Monroe, 1988). The evaluation of price has been labeled price perception and price fairness in previous literature (Chiang and Jang 2007; Campbell, 1999; Martin and Monroe, 1994, Oh, 2000). Perceived price is a major consideration in purchase decision making, but most consumers combine price and quality perceptions (overall value perception) in their decision making (Chiang and Jang, 2007). Also, affecting quality

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3 judgments (Chiang and Jang, 2007) is price perception, consumers' interpretation of price in  
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5 comparison to their internal reference price or competing offers (Oh, 2000; PedrajaIglesias and  
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7 Guillen, 2000).  
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11 Our study is designed to specifically examine consumer responses to room price  
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13 information and additional amenities charge information provided by the hotel. In particular we  
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15 examine the way hotels inform web visitors about extra charges for amenities. Some hotels do  
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17 not mention anything about extra charges, some use the phrase "additional charges may apply,"  
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19 yet others specifically state the actual prices for amenities such as resort fee, parking fee, gym  
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21 fee, Internet/wireless fee, etc. The way hotels inform consumers about their amenities can be  
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23 related to bundling practices. For example, if the hotel lists amenities without any additional  
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25 information on its website the amenities can be interpreted as being included without charge by  
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27 consumers. If the hotel mentions 'additional charges may apply,' this primarily provides  
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29 consumers with the knowledge that there will be additional unknown charges depending on what  
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31 they end up utilizing during their stay. A hotel that is completely transparent in its pricing  
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33 strategy provides the exact additional charges for each of the amenities offered.  
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40 There is limited research on the transparency of hotel amenity charges provided during  
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42 online hotel bookings and its effect on consumer decision-making. Xia and Monroe (2004)  
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44 investigate partitioned pricing on the Internet and state that partitioned price format (i.e., a base  
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46 price with surcharges clearly provided, as opposed to a single combined price) increases  
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48 purchase intentions, perceived value, and price satisfaction while reducing further search  
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50 intentions, partly due to the clarity of the price structure provided. This suggests that clarity of  
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52 information presented in the partitioned pricing format enhances a store's perceived  
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54 trustworthiness and perceived fairness. Their experiment shows that even though there is no  
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3 effort needed to calculate the total price with a single combined price, the explanation of the  
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5 surcharges along with the base price is still more favorably received by consumers.  
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8 Cue utilization theory states that consumers infer information from product/service  
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10 related attributes, and price represents one of the most important marketplace cues (Reimer and  
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12 Kuehn, 2005). We suggest that the use of a rational appeal such as price transparency will have a  
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14 greater effect on consumer evaluations of a hotel offer when price of the service offering is low  
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16 compared to high. When exposed to a print ad for a low priced service, consumers should feel  
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18 they are receiving a “good deal” if the ad meets their utility needs and expectations relative to the  
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20 price. Hence, for low price hotel customers, this suggests that the transparency/clarity of amenity  
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22 charge information may enhance the offer’s credibility and enhanced trust towards the provider  
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27 (Chiang and Jang, 2007) instead of deterring their purchase intention.  
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29 On the other hand, when consumers are looking for prestige or luxury, research shows  
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31 that room rate is often not as big of an issue. Prestige-seeking consumers look for a hotel that has  
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33 the best value in relation to price and quality (McCarthy, 2001). Cue utilization theory implies  
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35 that consumers make inferences from service-related cues; therefore, price can affect perception  
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37 of quality and prestige sought from the service. This theory supports the idea that in a high price  
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39 situation for prestige-seeking consumers who tend to seek quality and social status (Gijbrecchts,  
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41 1993) potential customers are less likely to find the notion of additional amenity charges  
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43 appealing since they are already paying a high room rate.  
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48 We therefore predict that, in general, amenity charge transparency is likely to be  
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50 appreciated for its clarity by consumers before making their purchase decisions (Burman and  
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52 Biswas, 2007; Xia and Monroe, 2004). This should be true particularly for low priced hotels  
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54 since their customers are more value conscious. Consequently, we propose that offering clear,  
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transparent information on amenity charges will have a more favorable influence on consumer evaluations, such that the low transparency level may lead to lower consumer evaluations than the high transparency level for low priced hotels. For high priced hotels, on the other hand, we may see lower consumer evaluations if amenity surcharges are mentioned at all (since consumers are likely to expect all charges to be included with high room rates). Hence, for high priced hotels, we will not see any difference across low vs. high amenity charge transparency levels since consumers may not be open to additional charges over and above the high room rate. When amenities are simply listed with no further price information other than the room rate (neutral transparency level), there may be an assumption that the listed amenities are included in the price of the hotel room. Hence, both value perception and purchase intention are likely to be high for both high and low priced hotels in this condition.

When amenities are listed with the statement 'additional charges may apply' (low-transparency level), we propose that respondents may be likely to estimate an amount for each of the amenity charges. While low priced hotel consumers may be unhappy with the lack of clarity, high priced hotel consumers may be likely to be upset that they are having to pay additional charges in addition to the high room rates. Hence their pre-purchase evaluation in the low-transparency condition is likely to be lower than the neutral condition for both high and low priced hotels.

However, when each amenity is listed with a specific charge (high-transparency level), low price hotel consumers may be likely to appreciate the specific information, allowing them to opt out of using the amenities and thus avoid the additional charges (Xia and Monroe, 2004). The higher transparency of amenity information should lead to higher pre-purchase value perception and purchase intention compared to low transparency for low price hotels. That is, both neutral

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and high transparency may be likely to be more effective than low transparency for low priced hotels. On the other hand, we posit that customers of high-priced hotels may be sensitive to any additional charges above the high room rates. Overall, they may have a lower pre-purchase evaluation of the hotel with the prospect of any additional charges regardless of transparency of amenity charge information. Hence, they may be likely to have lower pre-purchase value perception and purchase intention both in the low transparency as well as the high transparency conditions as compared to the neutral information level. Based on our conceptualization and the limited extant research, we hypothesize that:

**H1:** *When hotel room price is low, neutral and high amenity charge transparency levels will lead to a more favorable (a) value perception, (b) purchase intention (c) attitude toward the offer than will a low transparency level.*

**H2:** *When hotel room price is high, a neutral amenity charge transparency level will lead to a more favorable (a) value perception, and (b) purchase intention, (c) attitude toward the offer than will both low and high amenity charge transparency levels.*

## Method

### Pretest

A pretest was conducted using 25 undergraduate business students from a Southeastern US University. The purpose of the pretest was (1) to determine perceptions of high and low prices for hotels and (2) to determine the amenities that are most desired when selecting a hotel. Respondents were asked to provide the highest amount and the lowest amount they would be willing to spend for a night's stay at a hotel. A thorough web search was done to list the different amenities that hotel websites usually mention, and respondents were requested to pick the amenities that are important to them from this list. The pretest results suggested an average high price perception of \$219.00 and an average low price perception of \$109.00. For the main study

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we used \$209 for the high price hotel rate and \$99 for the low price hotel rate. The most desired amenities were shortlisted to include convenient location, safety and security, wireless Internet, breakfast, large rooms, parking, shuttle, fitness center, and swimming pool.

After visiting several hotel websites we designed a hotel web page with information mimicking real hotel websites as closely as possible. Transparency of amenity charges was manipulated at three levels – neutral amenity charge information (no mention of additional charges), low amenity charge transparency (inclusion of a statement that additional charges may apply), and high amenity charge transparency (specific prices given for each amenity not included with the room rate). The stimuli were developed after careful scrutiny of actual hotel practices of presenting amenity charges.

### **Subjects and Design**

The main study uses student and non-student consumers in the same Southeastern region in the US as in the pretest. We enlisted the help of 60 undergraduate students to approach their family members and friends to fill out the surveys, which was administered online via Qualtrics. This gave us a total of 259 respondents (males = 48.5%, non-student 41.2%). As desired we had a mix of age and income levels in our respondent pool (ages 18-25 = 61.3%, ages 26-45 = 8.5 %, ages 46-55 = 22.6%; income below \$35,000 = 54%, income \$36,000-\$100,000 = 33%, and income above \$100,000 = 11%). The data were collected in 2011 and the respondents reported traveling and staying at hotels on average 5.6 times/ year (ranging from one to over 70 nights per year) and spending on average \$112 per night. The average amount paid per night reported by the respondents is representative of the \$109 that the average leisure traveler spent in 2012 (“Lodging Industry Profile,” 2012). Forty percent of Americans travel for business and 60 percent for leisure (“Lodging Industry Trends,” 2015). The majority of business travelers (50%)

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are between 35-54 years and pay \$147 per night while the majority (39%) of leisure travelers are between 35-54 years and pay \$131 per night (“Lodging Industry Trends,” 2015). Respondents were randomly assigned to the cells in a 3 (neutral, low, and high amenity charge transparency) X 2 (hotel price level: high and low) between subjects experimental design.

### Stimuli and Procedure

Respondents were exposed to a screenshot of a hotel webpage. The webpage displayed visuals of the hotel as well as information on hotel amenities and room prices. All elements of the webpage were kept consistent across the six conditions except for the hotel room rates and the transparency level of the additional amenity charge rates. The price of the hotel room was either \$99 or \$209. The webpage had either only the list of amenities with no charge information, the list of amenities with “additional charges may apply” stated after the list, or the list of amenities with specific additional charges in dollar amounts next to each amenity. The webpage was followed by the questionnaire with items measuring the dependent variables.

### Dependent Variables

All measures are standard and have been adopted from the literature. A 3-item, 7-point scale with anchors of ‘a bad buy for the money’/ ‘an excellent buy for the money’, ‘a poor offer’/ ‘an excellent offer’, and ‘not a good value for the money’/ ‘an extremely good value for the money’ were used to measure respondents’ perception of the value of the hotel in the advertisement (alpha = 0.94).

A 3-item, 7-point scale with anchors of ‘highly unlikely’/ ‘highly likely’, ‘highly improbable’/ ‘highly probable’, and ‘no chance’/ ‘good chance’ (possibility of purchase) were used to measure the likelihood of purchase of the hotel in the advertisement (alpha = 0.98).



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Attitude toward the offer was measured by asking respondents to rate their opinion of the hotel offer using three bi-polar adjective items (un/favorable, negative/positive, bad/good).

## Results

### Manipulation Checks

We checked to ensure that the price perception in neutral, low transparency, and high transparency conditions were significantly different across the three groups. Subjects were asked, “How detailed do you think the price information regarding the services and amenities on the hotel webpage is?” Their responses were measured on a seven-point scale, anchored by ‘not at all detailed’ and ‘very detailed’. Univariate analysis showed that, as expected, the perception of details of price information differed significantly across all three groups (neutral mean = 2.92, low rational mean = 3.49, high rational mean = 5.05,  $F(2, 259) = 42.3, p < .001$ ). We also checked the respondents’ perception of the high vs. low hotel prices measured on a seven-point scale, anchored by ‘low’ and ‘high’. An independent sample t-test showed a significant difference between low and high price perception between the two groups (low mean = 3.61, high mean = 5.44,  $t = -13.85, p < .001$ ).

We further ran an independent sample t-test between students and non-students to examine their perception of low and high priced hotels. We found no significant difference between the price perception between the two groups (student mean = 4.51, non-student mean = 4.57,  $t = -.37, p > .10$ ).

### Test of Hypotheses

A multivariate analysis of variance (MANOVA) was conducted, and results show a significant interaction between hotel price level and level of amenity charge transparency

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(Wilk's Lambda = 0.95,  $F = 2.16$ ,  $p < .05$ ). The multivariate interaction effect occurs with the dependent variables of value perception ( $F = 4.23$ ,  $p < .05$ ), purchase intention ( $F = 5.36$ ,  $p < .01$ ) and attitude toward the offer ( $F = 4.51$ ,  $p < .05$ ). Multivariate main effects of price level ( $F = 16.96$ ,  $p < .001$ ) and amenity charge transparency level ( $F = 13.56$ ,  $p < .001$ ) are significant as well.

Results further show that for the low price hotel, value perception drops significantly across the three levels of amenity charge transparency (neutral to low to high). Independent sample t-tests show that value perception at the low amenity charge transparency level is significantly lower than at the neutral level (neutral mean = 5.12, low mean = 4.29;  $t = 2.87$ ,  $p < .01$ ), and value perception at the high amenity charge transparency level is significantly lower than at the low level (high mean = 3.32, low mean = 4.29;  $t = 3.12$ ,  $p < .01$ ).

Purchase intention shows a similar pattern of response, falling significantly as the amenity charge information gets more specific. Purchase intention at the low amenity charge transparency level is significantly lower than at the neutral level (neutral mean = 4.45, low mean = 3.72;  $t = 2.16$ ,  $p < .05$ ), and purchase intention at the high amenity charge transparency level is significantly lower than the low level (high mean = 2.75, low mean = 3.72;  $t = 2.88$ ,  $p < .01$ ).

Similarly, attitude toward the offer is significantly lower at the low amenity charge transparency level than at the neutral level (low mean = 4.28, neutral mean = 5.07;  $t = 2.48$ ,  $p < .05$ ), and attitude toward the offer is significantly lower at the high amenity charge transparency level than at the low level (high mean = 3.32, low mean = 4.28;  $t = 2.78$ ,  $p < .01$ ) (See Figure 1 a, b, and c).

**-Insert Figure 1 about here-**

## Consumer Reactions to Amenity Charge Transparency

Thus, we find partial support for H1. The neutral condition results in higher value perception, purchase intention, and attitude toward the offer as expected. However, contrary to our expectation that respondents will appreciate the clarity at the high amenity charge transparency level, respondents' evaluations are lower compared to both the neutral and low amenity charge transparency levels.

When hotel price is high, results show a different pattern across the three levels of amenity charge transparency. Independent sample t-tests show a significantly lower value perception, purchase intention, and attitude toward the offer when amenity charge information goes from neutral to low amenity charge transparency (value perception: neutral mean = 4.33, low mean = 2.5,  $t = 6.23$ ,  $p < .001$ ; purchase intention: neutral mean = 4.09, low mean = 1.98,  $t = 7.38$ ,  $p < .001$ ; attitude toward the offer: neutral mean = 4.62, low mean = 2.73,  $t = 6.01$ ,  $p < .001$ ). However, results show that there is no significant difference between low and high amenity charge transparency for value perception, purchase intention, and attitude toward the offer (value perception: low mean = 2.5, high mean = 2.48,  $t = 0.05$ ,  $p > .05$ ; purchase intention: low mean = 1.98, high mean = 1.98,  $t = 0.01$ ,  $p > .05$ ; attitude toward the offer: low mean = 2.73, high mean = 2.81,  $t = -0.35$ ,  $p > .05$ ), in support of H2. See Figure 1.

The results, therefore, show that the lower the amenity charge transparency the higher the consumer evaluation of the hotel *before the reservation*. We then took a step further in this study to examine respondents' post-purchase evaluation of the hotel. Respondents were told to assume that they had used some of the amenities mentioned on the webpage. These amenities were specified to them and kept consistent across all conditions. All respondents were told that they had used wireless internet access, the fitness center, parking, and breakfast. They were then

## Consumer Reactions to Amenity Charge Transparency

requested to provide an estimate of the total amount they were expecting to be charged at checkout after a 10% tax was added.

Respondents in the low price hotel and neutral condition (who saw the room rate plus tax as the only price information, with no additional information on amenity prices) estimated the total hotel bill including tax to be \$126.16 on average. For the low amenity charge transparency condition (where the room rate plus tax was accompanied with a list of amenities and the phrase ‘additional charges may apply’ as the only price information about amenity charges), the estimated total hotel bill was \$153.81 on average. For the high amenity charge transparency condition (where the room rate plus tax was accompanied with the list of amenities with exact charges for each included), the average estimated total hotel bill was \$177.41. As expected, this last condition was closest to the actual total hotel bill of \$174.74 (room rate plus taxes and charges for amenities used). Respondents in the neutral and low amenity charge transparency conditions expected *a much lower charge for amenities* than was actually charged. With the total expected outlay being the highest for the high amenity charge transparency condition, this result provides further explanation of why the high amenity charge transparency condition may result in the lowest consumer evaluations as compared to the neutral and low conditions. Respondents’ level of confidence in their total hotel bill estimate in both the neutral (mean = 4.97) and high transparency (mean = 5.35) conditions was significantly higher than their level of confidence in their total hotel bill estimate in the low amenity charge transparency condition (mean = 4.45) ( $F=10.01, p < .01$ ). See Figure 2.

With the high price hotel respondents in the neutral amenity charge condition, when asked to assume that they had used the same list of amenities plus a 10% tax, estimated the total hotel bill to be \$241.43 on average. For the low amenity charge transparency condition, the

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estimated total hotel bill was \$297.61 on average. For the high amenity charge transparency condition the average estimated total hotel bill was \$282.05. The actual total hotel bill was \$295.74 (including room price, amenities used and tax). These results show that respondents exposed to no amenity charge information expect to pay a considerably lower amount than those who saw ‘additional charges may apply’ and those who saw the exact charges, both of whom were fairly close to the actual total bill amount. These numbers provide further insight into the pattern of pre-billing evaluation results we found for the high priced hotel, where the neutral condition evaluation was significantly higher than the evaluations for both the low and high amenity charge transparency conditions. See Figure 2.

**-Insert Figure 2 about here-**

Next, we examined respondents’ re-purchase intention after being exposed to the actual hotel bill with the total charges for their stay at the hotel. Re-purchase intention was assessed using a 5-point, one item measure: ‘Based on the price you paid for your stay, how likely are you to consider this hotel again?’ The univariate results show that there is a significant interaction effect of price of hotel and level of amenity charge transparency on respondents’ re-purchase intention ( $F = 3.28, p < .05$ ). There is a significant main effect of price of hotel ( $F = 11.51, p < .05$ ) as well as level of amenity charge transparency ( $F = 4.15, p < .05$ ). See Figure 3.

**-Insert Figure 3 about here-**

Figure 4 (a) and (b) shows the pattern of purchase intention vs. re-purchase intention across all six conditions. For the low priced hotel (Figure 4a), we find that while purchase intention falls significantly from the neutral condition to the low amenity charge transparency condition to the high amenity charge transparency condition, re-purchase intention shows a much

## Consumer Reactions to Amenity Charge Transparency

different pattern. While the purchase intention fares poorly in the high transparency condition, we find that re-purchase intention is significantly higher for this condition (mean = 3.08) as compared to both the neutral (mean = 2.13) and the low transparency (mean = 2.27) conditions. While the neutral and low amenity charge transparency conditions do not vary significantly from each other ( $t = -0.49, p > 0.10$ ), respondents in the low transparency condition have significantly lower re-purchase intentions than those in the high transparency condition ( $t = -2.69, p < 0.01$ ).

We then compared the means of pre-stay purchase intention with post-stay re-purchase intention for each of the six conditions. For the low priced hotel (Figure 4a), in the neutral condition there is a significant drop from 4.45 pre-stay to 2.13 post-stay ( $t = 8.70, p < .001$ ). In the low amenity charge transparency condition the means drops from 3.72 to 2.27 ( $t = 4.90, p < 0.001$ ). However, in the high amenity charge transparency condition there is a slight increase in re-purchase intention from 2.75 to 3.08, but this difference is not significant ( $t = -1.69, p = .10$ ).

For the high priced hotel (Figure 4b), while pre-stay purchase intention falls significantly from the neutral condition to the low amenity charge transparency condition, and shows no significant change from the low amenity charge transparency condition to the high condition, re-purchase intention shows an interestingly different pattern. While pre-stay intention fares well in the neutral condition (mean = 4.09), we find that re-purchase intention drops significantly for this condition (neutral mean = 2.05;  $t = 8.44, p < .001$ ). This is probably due to the fact that in the neutral condition customers are assuming no additional charges pre-purchase, so that their estimate of \$241.43 was way below the actual billing amount (\$295.74). However, regardless of amenity charge transparency condition we find that re-purchase intentions for all three transparency conditions at the high price hotel are equally poor (neutral mean = 2.05, low transparency mean = 1.80, high transparency mean = 2.00). Purchase intention and re-purchase

## Consumer Reactions to Amenity Charge Transparency

intention do not significantly differ from each other in both the low and high amenity charge transparency conditions. This is likely due to the fact that any additional charge is not acceptable to customers neither before nor after their exposure to the actual hotel bill, since respondents in both these conditions were able to estimate fairly closely the actual total bill (\$297.61 and \$282.05).

**-Insert Figures 4(a) and 4(b) about here-**

Finally, we ran some additional analyses to further understand the above post-stay re-purchase intention responses. We examined respondents' feelings about the hotel's honesty, ethics, and deception in terms of providing information to their customers. These measures were taken post-purchase across both low priced and the high priced hotels (see Figure 5(a) and 5 (b)). Patterns of responses are similar across the two price levels. While the high amenity charge transparency condition produces the highest ratings on honesty and ethics, and the lowest ratings on deception, the low amenity charge transparency condition is considered as dishonest, unethical, and deceptive as the neutral condition is. Hence we see that stating 'additional charges may apply' does not make much difference as compared to not mentioning anything at all about amenity charges when it comes to post-purchase evaluation of the hotel's honesty.

**-Insert Figures 5(a) and 5(b) about here-**

### Discussion

Results from this study show that customers of both low and high priced hotels have different reactions to greater amenity charge transparency pre-purchase *versus* post-purchase. Customers of low priced hotels, who may be more price sensitive, react more positively to lower amenity charge transparency pre-purchase, because they tend to assume lower or no surcharges

## Consumer Reactions to Amenity Charge Transparency

will occur. However, they react more positively post-purchase to greater amenity charge transparency. Since they are able to more accurately estimate their total hotel bills when there is greater amenity charge transparency (and in reality are also able to choose to avoid surcharges by not using amenities) they are happier with their final financial outcomes. This post-purchase reaction is likely to impact future patronage of the hotel, which if the hotel is a national brand or member of a chain, could impact customer relations with the brand as a whole.

For high priced hotels, the reaction to higher amenity charge transparency is not very positive either pre- or post-purchase. Customers simply do not like paying extra for amenities when they are already paying a lot for the room. These hotels might want to consider bundling some of the less costly amenities with the room price and focus on their free inclusion in hotel advertising. Hospitality marketers do need to be concerned about the possibility of amenities creep, though, where customers come to expect more and more extras to be thrown in at no charge, resulting in higher costs for the hotel over time (Bernstein, 1999). Marketers might also err in the direction of more ethical and less deceptive marketing by fully disclosing all amenity surcharges, since this leads at least to better post-purchase feelings toward the hotel, and possibly more positive online post-purchase reviews. Even though the FTC currently allows hotels to omit mandatory resort fees from their advertised prices, the policy does state that consumers must be informed of the charges in time to back out of the reservation so as to avoid the charges. In the case of amenity surcharges, consumers need to know what they will be charged ahead of time in order to be able to choose **not** to use the amenities during their stay so as to not acquire the additional charges, or to be able to choose to use the amenities knowing full well what the charges will be. This implies that an ethical pricing strategy would inform hotel customers about the charges prior to their stay.



## Consumer Reactions to Amenity Charge Transparency

**Implications and Contribution**

In this research, we try to understand if different levels of amenity charge transparency provided in the online offer affect the consumer pre-purchase and post-purchase evaluation process in the context of hotel services. Understanding the type of information to include when promoting a service offering online is important to both marketing managers and e-commerce practitioners. They must understand the long-term implications of offering (non)transparent price information in terms of the effects on consumers' attitudes toward the service provider and on future purchase behavior. Both no amenity surcharge information as well as low transparency amenity surcharge information strategies lead to ethical and public policy concerns because they reduce consumer comprehension of what their total outlays will be. These strategies unfairly affect both shopping behavior and effective search for information between competing offers prior to selecting a hotel. Our results showing consumers' perceptions regarding deception mirror Grewal *et al.*'s (1998) finding that buyers who have less knowledge of price and product information have greater potential for being deceived by companies.

For the high priced hotels, even if amenity price surcharges are completely and clearly presented, customer responses are not favorable pre-purchase or post-purchase since customers who are already paying dearly for the hotel room simply do not feel favorably about additional amenity charges. The extent of the transparency of amenity charge information does not matter as much since the amenities may be expected to be added benefits that come with the pricey hotel stay. These results show that, unfortunately, increased transparency of pricing information also comes with a disadvantage - mentioning all the additional amenity charges clearly before the customer's stay could make the organization less competitive. However, some options for high priced hotels might be to include the additional charges into the room rates such that the hotel's

## Consumer Reactions to Amenity Charge Transparency

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3 additional costs are covered. Another option is to include certain amenities (i.e. breakfast,  
4 parking, fitness center, free internet access) for desired customer behavior such as prepayment  
5 for full stay (without refund) or for loyalty. These solutions are easy for hotels to implement via  
6 their websites and can offset some of the adverse effects of separate additional charges, mainly  
7 by giving consumers more choices.  
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15 Counterintuitive to extant research findings on appreciation of clarity of additional  
16 surcharges (Burman and Biswas, 2007; Xia and Monroe, 2004), this research finds that low  
17 priced hotel customers show lower initial purchase intentions at higher level of amenity price  
18 transparency. However, re-purchase considerations were significantly higher for the high  
19 amenity transparency conditions. This is an important implication for practitioners to be aware  
20 of—that transparent pricing strategies help retain customers in the long run. Lack of transparency  
21 will not only alienate consumers but also lead to loss of repeat business with the risk of  
22 generating negative word-of-mouth. This may be detrimental for hotels as the majority (81  
23 percent) of consumers find online reviews important in making their online reservations  
24 (“Internet Travel Hotel Booking Statistics”). Hotel marketers need to be concerned with the post-  
25 purchase feelings and evaluations of their guests. If customers are presented with a significantly  
26 higher hotel bill than anticipated, they are likely to be dissatisfied and potentially post negative  
27 reviews online on travel sites and social media. This may happen particularly if customers feel  
28 that undisclosed charges are unethical and deceptive.  
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49 Unfortunately, even though lower levels of amenity price transparency for both high and  
50 low priced hotels show higher initial purchase intentions, it still raises the question of unethical  
51 business practices resulting in unfavorable customer relationships. Thus, the results of our  
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## Consumer Reactions to Amenity Charge Transparency

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3 research have strong managerial implications from theoretical, ethical, as well as a practical  
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5 points of view.  
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8 It is time-consuming to educate consumers on hidden charges and make them aware of  
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10 hidden cost pricing strategies and practices that would eventually lead them to trust organizations  
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12 more who provide high price transparency. This would pay off in the long run but is less  
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14 effective in the short term; hence, businesses get into the trap of hidden charges and low price  
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16 transparency strategies (Ayres and Nalebuff, 2003). Even though it presents a dilemma whether  
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18 to use the high or low amenity charge transparency pricing strategy, especially for high priced  
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20 hotels, managers should think beyond consumers' current purchase decision and consider future,  
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22 repeat purchases, with a focus on customer relationship-building.  
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27 As more and more businesses are competing for customers for the services they offer,  
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29 the concept of customer loyalty gains importance (Shoemaker, 2003). One way to appeal to  
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31 regular customers is to have a system of customer loyalty that will reward them with free  
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33 amenities. Moreover, charging for some amenities may be justified if product/service  
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35 differentiation is distinctive and clarified (e.g., shuttle service may cost an additional amount if  
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37 the customer wants to go beyond the included 3-5 miles).  
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41 A primary contribution of our findings is that public policy makers such as the FTC, who  
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43 monitors pricing practices of service providers, may need to look more closely at hotel marketers  
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45 who choose not to disclose extra surcharges for amenities. This would limit marketing practices  
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47 that purposefully deceive consumers who may not be as experienced in purchasing products in  
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49 specific product categories. Consumers should not get a negative surprise when presented with a  
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51 bill at check-out time due to lack of information on surcharges and extra costs that they assumed  
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53 were included with the room price. Other travel-related industries, such as airlines, must provide  
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## Consumer Reactions to Amenity Charge Transparency

disclosure of the full ticket price to be paid, including government taxes/fees as well as carrier surcharges, fees for baggage handling and other optional services in their advertising, on their websites, and on the passenger's e-ticket confirmation ("Airline Rules and Fares," 2015).

This kind of regulation could be enacted if the hospitality industry is perceived as practicing deceptive or unfair pricing strategies.

### **Limitations and Future Research**

First, this is scenario-based research – it is possible that factors other than those presented in our study could have affected consumer responses. In this study respondents were told that this was the hotel option they chose, and were not allowed to choose their most favorable options, as would occur in the actual marketplace. They were told it was a one night stay, and given a forced choice of amenities used. Another factor is the consumer's purpose of travel – even though our scenario stated that this was a weekend trip, some may view it as a leisure trip while others may view it as a business trip, depending on their work schedule and who is responsible for the hotel charges. Also, we did not name any particular hotel brand nor did we use the star rating system that is commonly used to indicate hotel quality. Also no specified location was given—only that it was a beach hotel. These factors could lead to less generalizable results.

In terms of sampling, a convenience sample was utilized. We did not screen respondents based on their age, income level, or travel experience. As the current study focuses on information transparency presented on hotel websites we did not ask respondents any detailed questions on their travel behavior or actual online booking practices. The questions we did ask were how many times per year they spent at hotels and the average amount they normally spend per night (reported above in the methods section). The finding that 67 percent of consumers book

## Consumer Reactions to Amenity Charge Transparency

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3 online (reported above) is from Toh et al.'s (2011) study. They reported a sample size of 249 of  
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5 which 47 percent were male with an average age of 47. They further divided their sample by  
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7 business or leisure travel, who stayed on average sixteen nights per year in a hotel. It was in their  
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9 sample that 78 percent self-reported that they used the Internet to search for hotels, but only 67  
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11 percent actually booked the hotel online. Their study focused on travel planning and Internet  
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13 search and bookings for hotels, while the current study focuses on the information presented on  
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15 hotel websites. However, when compared to the American Hotel and Lodging Association's data  
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17 on leisure and business travelers, we find that the characteristics of our respondents are fairly  
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19 representative ("Lodging Industry Profile," 2012; "Lodging Industry Trends," 2015).  
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26 In light of our convenience sample, future research could examine if there is a difference  
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28 in how business versus leisure travelers interpret and process information transparency on hotel  
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30 websites. It is possible that more or less experienced travelers would react differently to our  
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32 manipulations. A comparison between infrequent (those staying in hotels twenty nights per year  
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34 or less) and frequent travelers (Rohlf's and Kimes, 2007) would be interesting. However, many  
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36 business travelers may not make their own hotel bookings, as many businesses still use travel  
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38 agencies or have support personnel handle business trip bookings. Also, as this study is using an  
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40 online platform in its scenario, future studies could include investigating the tech savviness of  
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42 respondents and their general online purchasing behavior and response to price information.  
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48 In addition, we did not measure price sensitivity - consumers with varying levels of price  
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50 sensitivity could react differently to different offer combinations. Future research could also look  
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52 at different hotel brands to see how brand awareness, attitude, and trust affect reaction to price  
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54 and offer evaluations. Another piece of information that could be included in future research  
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56 would be to provide the amount of savings to the consumer when amenities are included in the  
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## Consumer Reactions to Amenity Charge Transparency

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3 base price. Providing savings information in vacation packages as well as the use of transparent  
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5 pricing has been shown to be effective and helpful in consumer decision-making (Tanford, *et al.*,  
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7 2010). Not showing the savings is viewed as deceitful by the consumer, who deduces that the  
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9 hotel is hiding very small or next to no savings (Tanford, *et al.*, 2010). Finally, we presented our  
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11 stimuli in isolation from competing offers. Presence of competing offers facilitates consumer  
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13 decision making (Miao and Matilla, 2007). Future studies should perhaps consider letting  
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15 respondents choose from competing offers which would make the consumer evaluation scenario  
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## Consumer Reactions to Amenity Charge Transparency

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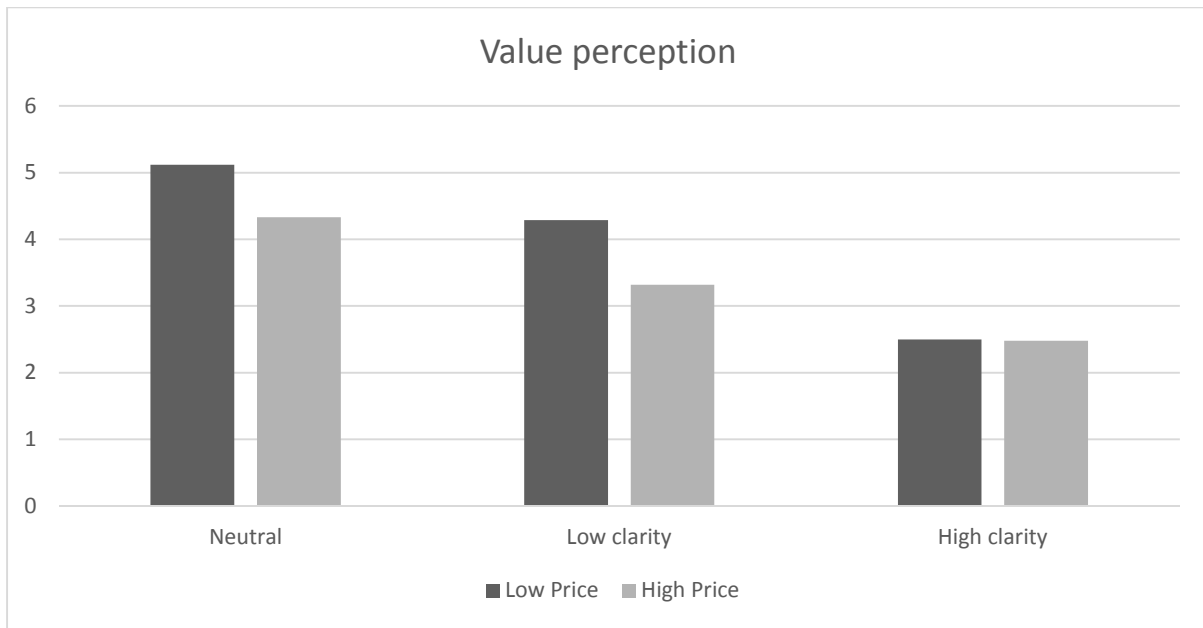


Figure 1a. Pre-purchase evaluations (means) on value perception of low and high price hotel across neutral, low, and high amenity charge transparency conditions.



Figure 1b. Pre-purchase evaluations (means) on purchase intention of low and high price hotel across neutral, low, and high amenity charge transparency conditions.



*Figure 1c.* Pre-purchase evaluations (means) on attitudes towards the offer of low and high price hotel across neutral, low, and high amenity charge transparency conditions.

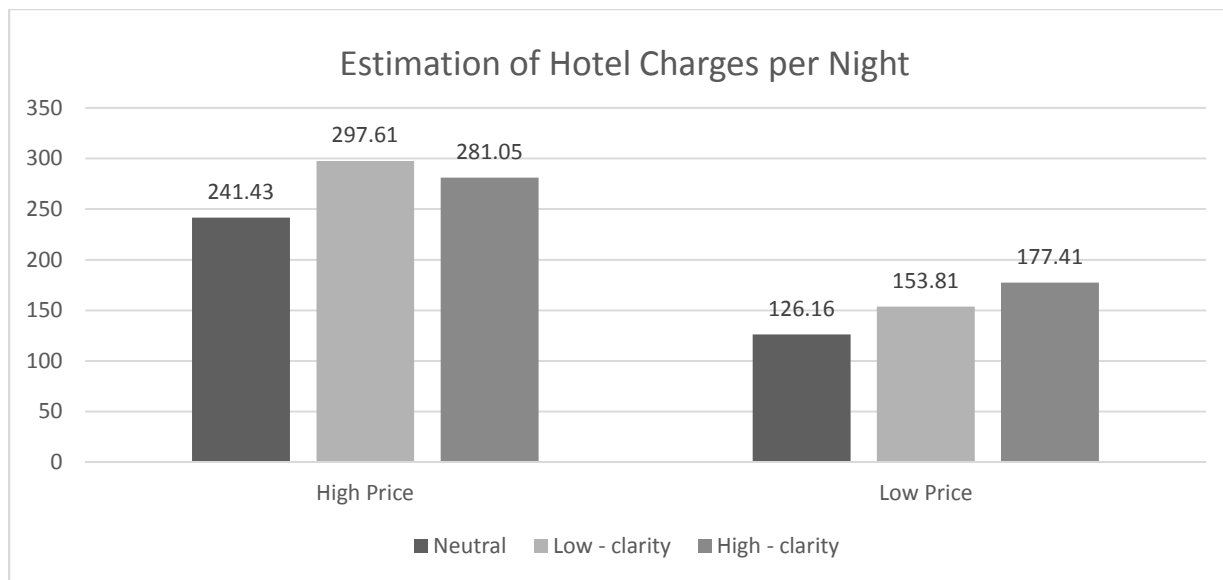


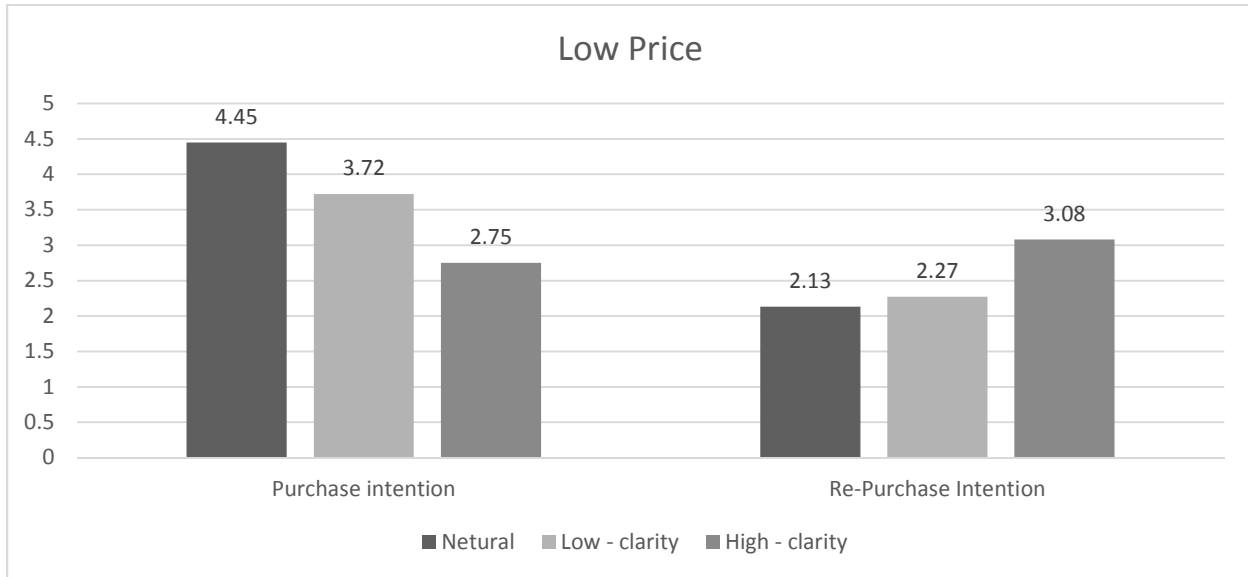
Figure 2. Estimation of hotel charges per night (US. Dollars). Actual Total Hotel Charge (High Price): \$295.74. Actual Total Hotel Charge (Low Price): \$174.74



Figure 3. Re-Purchase Intention (means).

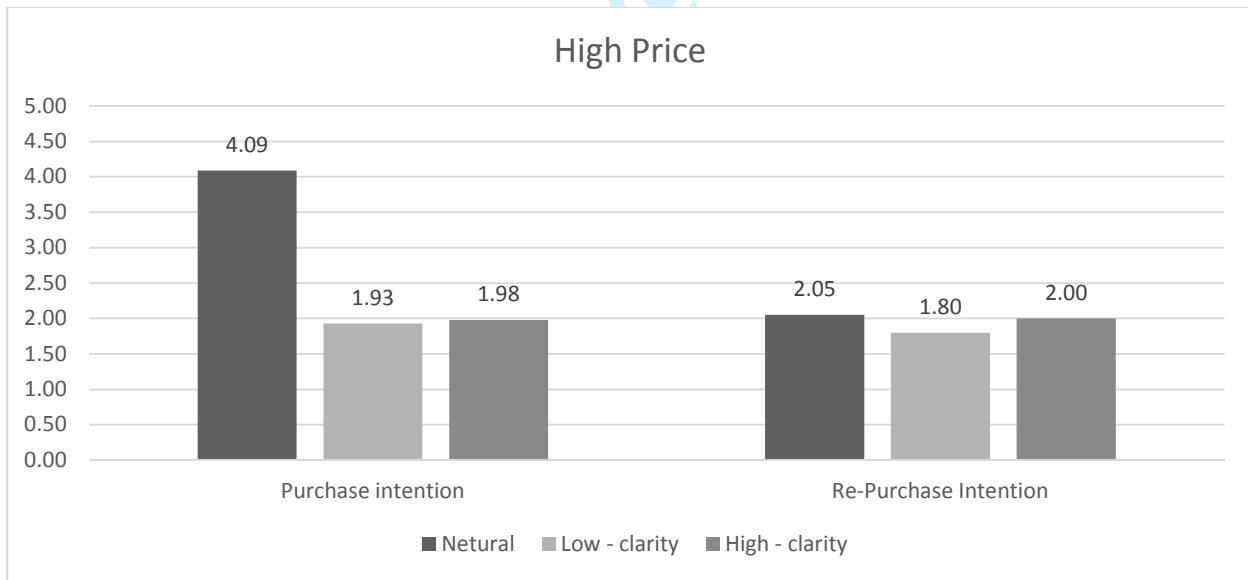
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Peer Review Only



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*Figure 4a. Purchase vs. Re-purchase for Low Priced Hotel*



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*Figure 4b. Purchase vs. Re-purchase for High Priced Hotel*



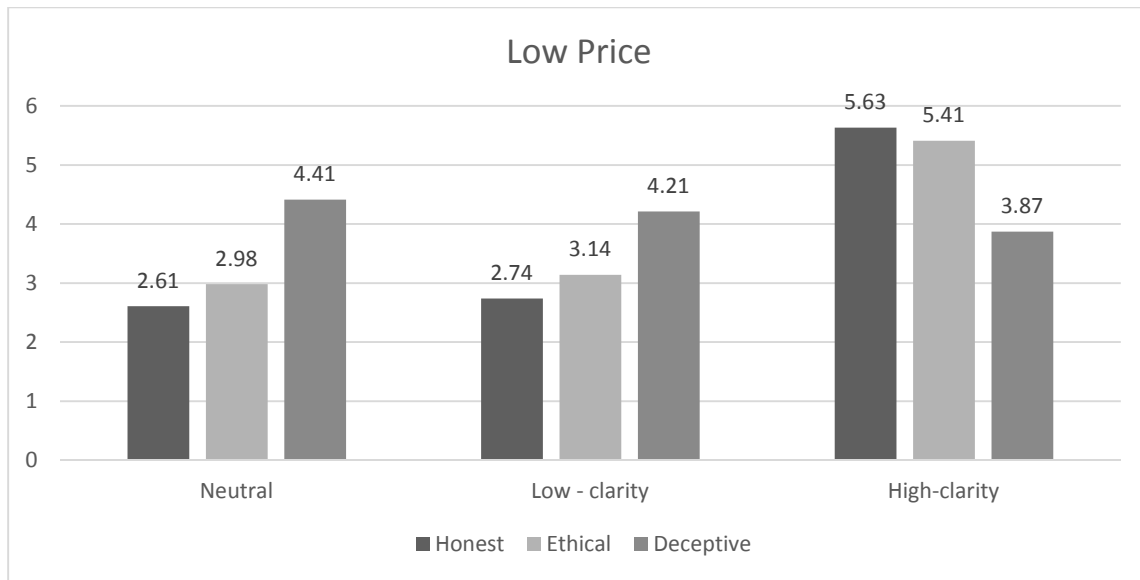


Figure 5a. Consumer Ratings of Honesty, Ethics, and Deception (means) for Low Priced Hotel



Figure 5b. Consumer Ratings of Honesty, Ethics, and Deception (means) for High Priced Hotel