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Feeling “Nickel and Dimed”? Understanding Consumer Appraisals of Ancillary Fees

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ABSTRACT

Over the last few years, ancillary fees have become a significant source of revenue for businesses in various service industries. The popular press in the U.S. has used the term “nickel and dimed” as companies charge consumers numerous (optional and otherwise) fees for new and/or those earlier considered as “free.” Despite media-focused controversy, cross-industry research on consumers’ perceptions of ancillary fees has been sparse. Based on attribution and fairness theory, the objective of this paper is to investigate consumer appraisals of being “nickel and dimed” in three consumer service industries (banking, hotels, and airlines). Implications for managers and researchers are discussed.

INTRODUCTION

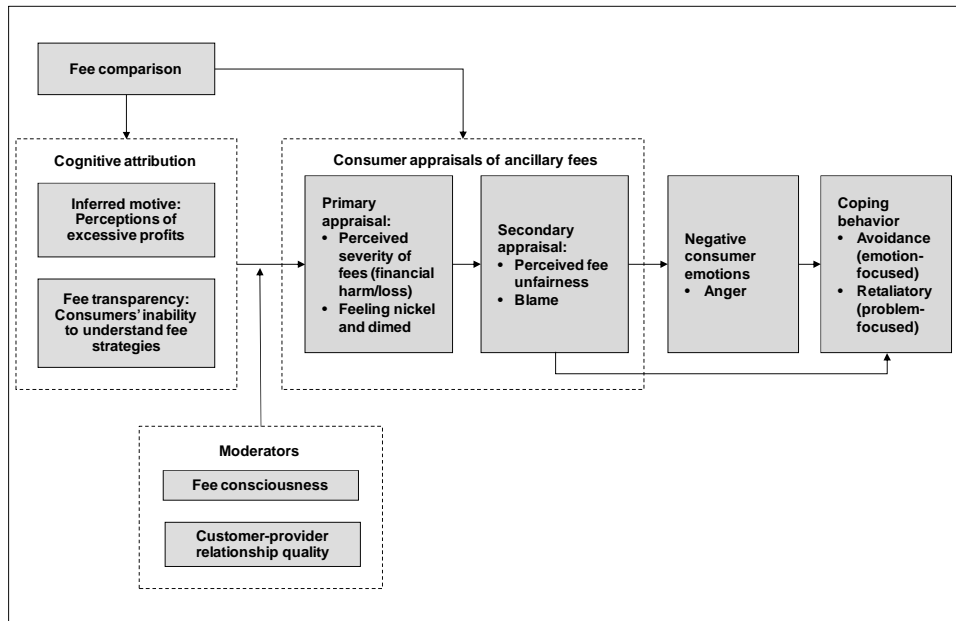
In recent years, businesses in various consumer service industries have begun to unbundle their service offerings by introducing a variety of optional and mandated ancillary fees for supplementary services that were previously provided as “free” (Ancarani et al. 2009; Marshall 2006; Martin 2011; Orwoll 2010; Smith 2011; Thornton 2003; Waller 2008). For example, many airlines in the United States and elsewhere now charge fees for checked baggage, priority boarding, and more legroom. In the hotel industry, new fees have been introduced for housekeeping, room-service trays, and bellhops – services once thought to be part of room rates (Martin 2011). Comparably, large banks in the U.S. (e.g. Chase, Wells Fargo) have started to charge customers new fees, e.g., for paper statements and debit cards (Siegel Bernard and Protesse 2011). Such ancillary fees have become a significant source of revenue. Airlines collected more than US\$3.3 billion in baggage fees and more than \$2.3 billion in reservation and cancelation fees in 2011; in the hotel industry a record of \$1.85 billion in fees were collected in the same year (Rosenbloom 2012).

The practice of charging ancillary fees has received increased coverage in the media. News reports in the U.S. have termed the practice “nickel and dimed” to describe *à la carte pricing* schemes that do not create discernable value for customers by enhancing service or cost savings but instead have the purpose of improving the firm’s bottom line. Common wisdom and numerous media reports suggest that these fees evoke negative psychological and behavioural reactions as consumers believe such fees to be unfair. Thereby, understanding consumers’ perceptions of feeling “nickel and dimed” is of interest both to service management researchers and practitioners. Previous research has shown that brand attitudes decrease after consumers realize that they misestimated the total of partitioned prices, attributing the cause of that error to the provider (Lee and Han 2002). Although some industry experts have claimed that fees have not resulted in severe hostile responses (Sorensen 2010), other research indicates that, consumers may engage in “anti-branding behaviour” (Krishnamurthy and Kucuk 2009; Kucuk 2008) that can lead to significant brand damage. For instance, a proposed monthly fee for ATM usage by Bank of America in 2011 resulted in an online petition that was signed by more than 300,000 customers, threatening to leave the bank (Kim and Gutman 2011). On the other hand, some industry experts have claimed that fees have not resulted in severe hostile responses (Sorensen 2010). To contribute to the lack of research, the purpose of this study is to examine consumer appraisals of being “nickel and dimed” in three consumer service industries (banking, hotels, and airlines).

CONCEPTUAL FRAMEWORK

Price fairness perceptions are defined as “a consumer’s assessment and associated emotions of whether the difference (or lack of difference) between a seller’s price and a comparative other party is reasonable, acceptable, or justifiable” (Xia et al. 2004, p. 3). Researchers have used a variety of theories and principles to study price fairness and its possible antecedents, including equity theory, dual entitlement theory, principle of procedural justice, fairness theory and attribution theory (Bechwati et al. 2009). Extant research suggests that individuals make moral judgements (i.e., perceived fairness) by making comparisons between a given price and internal/external reference prices on the basis of their past payment experience or the firm’s pricing communication (Chung and Petrick 2012; McCarville et al. 1996). Based on attribution and fairness theory, we propose that price comparison and cognitive attribution influence perceived fee fairness, which in turn leads to negative emotions and unfavourable customer behavioural intentions (c.f. Chung and Petrick 2012). Following Lazarus (1968) transactional appraisal process we distinguish a primary and secondary appraisal of fees. Figure 1 illustrates our conceptual model.

Figure 1: Conceptual framework



RESEARCH DESIGN

This study employs a mixed method approach to develop a deep understanding of consumer appraisals of ancillary fees. The research design includes exploratory focus groups to help refine the study. Focus groups are followed by a survey that collects quantitative and additional qualitative data.

REFERENCES

References are available on request.