

**Vicki Morowitz Remarks for the
White House Convening on the Economic Case for Junk Fee Policies
March 21, 2023**

Thank you for inviting me to speak on this important initiative of the Biden-Harris Administration. This is personally a very exciting time for me. I have been studying how consumers react when firms assess additional fees or surcharges 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. And I have watched with much interest how regulators in different countries have dealt with these issues.

I am thrilled that my research is now shedding light on a topic of much interest to consumers, legislators, regulators, and well-intentioned organizations here at home.

In my remarks today, I will discuss two pricing practices that I have studied in depth that are central to the administration's agenda regarding junk fees: partitioned pricing and drip pricing.

Let me start with partitioned pricing. My co-authors and I coined the phrase and defined partitioned pricing as a strategy where firms deliberately 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 charging a single, all-inclusive price. 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.

In general, what research 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. This happens even when the surcharges are fully disclosed. And these effects are larger when the surcharges are made difficult to process such as when they are framed as a percent of the base price vs. a flat dollar amount, or when they are hidden in the small print.

What academic research on partitioned pricing makes clear is that consumers make better decisions when firms use all-inclusive pricing.

A related pricing strategy is drip pricing. The FTC defines drip pricing as a pricing technique in which firms advertise only part of a product's price up front and reveal other charges later as shoppers go through the buying

process. The additional dripped charges are sometimes mandatory fees, like resort fees, but sometimes are fees for optional add-ons, such as paying for parking at a hotel.

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, might first see the price for different seats in the venue. After selecting a seat, the consumer might come to learn as they continue shopping and clicking through more web pages, that there is also a service fee, an order processing fee, a convenience fee, and a ticket delivery fee, even if the ticket is sent electronically. Other industries like the airline and the hospitality industry drip surcharges for popular optional add-ons, such as reserving a seat on a plane or checking a bag.

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 and fees for the selected optional add-ons.

Notably, these effects happen even when consumers are provided with a total price before they complete their transactions. That is, it is not enough to show the total price before the consumer puts in their credit card information, because at that point they have already mentally committed to the purchase.

What the research on drip pricing makes clear is that consumers benefit when all-inclusive upfront pricing is used, and when fees for optional add-ons are disclosed up front and not dripped later in the shopping process.

More broadly what I have learned over these many years, from my own research and the research of others, is that there are many ways in which consumers can be misled in the shopping process. This is not because consumers are stupid or even careless, in fact consumers try to make good decisions for themselves and their families. At the same time, consumers, all of us, are busy and distracted, and may not notice or appropriately consider all information important to that purchase decision, especially when that information is not made salient in the shopping context.

The real reason why consumers are misled is because profit maximizing firms have figured out ways to display prices, like using partitioned and drip pricing, that are particularly difficult for consumers to process. These pricing strategies, lead consumers to make decisions that differ from what they intended and that are against their own interest.

And since I began studying these practices, I have seen their use accelerate with the growth of online shopping. I believe that firms will increasingly turn to practices like these, and that enhanced technology and better data and prediction models, will help firms to refine them in ways that will further increase their own profits, but to the detriment of consumers. The consequence will be that consumers will end up making choices that do not reflect their true desires or preferences, and will end up spending more money than they intended and than they needed to.

Firms often claim that when they separate fees, they are being more transparent about their costs, and consumers often believe this. However, this transparency can easily be achieved in ways that do not harm consumers, for example by providing a single total price, and then communicating how much of that total reflects specific costs.

As a scholar who has studied these pricing strategies for decades and who knows well how their use can be detrimental to consumers, I am very excited about the attention that the administration and many state legislators are paying to these issues. I am glad to see that policies are being promoted that address partitioned and drip pricing, where prices must be all inclusive and where all fees fully revealed upfront. This is exactly what the research suggests will be most beneficial to consumers.

Academic research makes clear that these initiatives are very much needed and will greatly help consumers.