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From 'free' to fee: Acceptability of airline ancillary fees and the effects on customer behavior

Sven Tuzovic [a], Merlin C. Simpson [a], Volker G. Kuppelwieser [b,*], Jörg Finsterwalder [c]

[a] Pacific Lutheran University, School of Business, Tacoma, WA 98447, USA
[b] NEOMA Business School, Department of Marketing, 1, rue du Maréchal Juin—BP 215, Mont-Saint-Aignan Cedex 76825, France
[c] Department of Management, University of Canterbury, Te Whare Wānanga o Waitaha, Private Bag 4800, Christchurch 8140, New Zealand

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ABSTRACT

Businesses in various consumer service industries have begun to unbundle their service offerings by introducing numerous fees for products and services that were previously provided as "free." Anecdotal evidence in the media indicates that these fees cause widespread public displeasure, frustration, and outrage. This paper develops a framework of fee acceptability, negative emotions, and dysfunctional customer behavior, which is tested using data from the airline industry. Findings identify the strongest effects on betrayal in the case of baggage fees, followed by charges for comfort. Also, betrayal has a direct effect on complaining, whereas anger mediates the relationship between betrayal and negative word of mouth.

1. Introduction

Pricing is often described as the least understood and most ineffectively applied element of the marketing mix. Nevertheless, it is critical to business success and viability (Potter, 2000). A common pricing method is "product bundle pricing" or "price bundling," in which providers combine several products or (complementary) services in a bundle for a single, combined price (Ancarani et al., 2009; Lee et al., 2011; Yan and Bandyopadhyay, 2011; Yan et al., in press). In recent years, however, businesses in various consumer service industries have changed their pricing strategies significantly to a model called "à la carte pricing". That is, firms have begun to unbundle their service offerings by introducing so-called "ancillary fees" for supplementary services that were previously provided as "free" (Ancarani et al., 2009; Harris, 2011; Marshall, 2006; Martin, 2011; Orwoll, 2010; Smith, 2011). 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). More recently, 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 Protess, 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 (Rosenbloom, 2012). However, as widely reported in the media, the introduction of fee-based pricing practices has led to increased public displeasure, frustration, anger and outrage (Consumer Travel Alliance, 2010; MSNBC, 2011; Stoller, 2010). Many customers believe these fees are unfair, perceiving them as increasing profits to firms without offering any value. As a result, consumers have sought to avoid certain fees, for example, airline passengers have been packing more in carry-on bags to avoid checked baggage fees (McCartney, 2008, 2010).

As services have become an increasingly important part of the economy, the significance of understanding service pricing decisions and strategies has grown (Avlonitis and Indounas, 2007; Docters et al., 2004). However, despite the proliferation in the media, empirical research on the topic of ancillary fees has been sparse. Previous research can be grouped roughly in two categories: (1) *general pricing literature* that has addressed impacts of price increases (Homburg et al., 2005), the practice of price partitioning (Ancarani et al., 2009; Fruchter et al., 2010; Morwitz et al., 1998, 2009), and customer perceptions of price fairness (Bechwati et al., 2009; Kimes and Wirtz, 2003) and (2) *fee-specific literature*, e.g., recreation fee research (Nyaupane et al., 2009; Reiling et al., 1992; Williams et al., 1999). For example, Williams et al. (1999) investigate wilderness

* Corresponding author. Tel.: +33 23 28 25 748.
E-mail address: vkp@rouenbs.fr (V.G. Kuppelwieser).

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users' response to new overnight camping fees. They demonstrate that the unacceptability of fees ranged from 2.4% for RV camping to a high of 38.1% for swimming.

Understanding consumers' emotions in response to service unbundling and fee-based pricing practices is of interest both to service management researchers and practitioners. As previous research has shown consumers' brand attitudes decrease after they realize that they misestimated the total of partitioned prices, attributing that error to the provider (Lee and Han, 2002). More importantly, consumers may engage in "anti-branding behavior" (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). As companies are moving towards a "portfolio of ancillary fees", the important question arises which fees cause strong negative emotions, and which fees lead to avoidance behavior or even retaliatory customer behavior.

Given the lack of empirical research in this domain, this paper tries to contribute to the neglected topic by investigating the effects of ancillary fees. This study is the first to investigate the acceptability of a variety of ancillary fees for unbundled services and their effects on customer emotions as well as customer behavior. The model is then tested using data from the airline industry. The contributions of this research are twofold: first, we establish a conceptual model that links fee acceptability of unbundled services with affective responses and customer behavior. Second, we demonstrate that effects vary within a portfolio of ancillary fees, suggesting that fees for certain unbundled services are less acceptable than others, leading to more negative consequences for the firm.

The paper is structured as follows: First, we will review the current literature and discuss the theoretical underpinnings leading to our research model and the derived hypotheses. Then, we will present findings of an empirical study conducted in the airline industry. Finally, we end with a conclusion, managerial implications and a discussion of limitations and directions for future research.

2. Theoretical background

2.1. Price fairness and appraisal theory

In the past, considerable research in the pricing literature has focused on the effects of price bundling (e.g., Yan and Bandyopadhyay, 2011; Yan et al., in press), price partitioning (e.g., Burman and Biswas, 2007; Hamilton and Srivastava, 2008; Morwitz et al., 1998, 2009), price increases (e.g., Homburg et al., 2005) as well as issues of price fairness (Bechwati et al., 2009; Bolton et al., 2003; Campbell, 1999a, 1999b, 2007; Kimes and Wirtz, 2003). According to (Xia et al., 2004, p. 3), 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." Some scholars have begun to examine unfairness perceptions in the context of fees for public recreation services (McCarville et al., 1996) and more recently with regard to ancillary fees in the airline industry (Chung and Petrick, 2012). Over the years, researchers have developed and adapted various theories and conceptualizations to understand when and how consumers form price fairness judgments (Xia et al., 2004), for example, distributive and procedural justice theory, the dual entitlement principle (Kahneman et al., 1986), equity theory (Nyaupane et al., 2009), or attribution theory (Chung and Petrick, 2012; Vaidyanathan and Aggarwal, 2003). Peine et al. (2009) propose a conceptual framework of price affect based on appraisal theory. According to the authors, price affect mediates the effect of price cognition on consumer behavior.

Drawing on cognitive appraisal theory we propose that negative emotions arise from the cognitive appraisal of ancillary fees that lead to coping behaviors. We further adapt Lazarus' cognitive–emotive model that distinguishes between first and secondary appraisal (Lazarus, 1991; Lazarus and Folkman, 1984). The primary appraisal is a person's judgment about the significance of an event. The second appraisal deals with the evaluation of the controllability and a person's coping resources. Our model thus encapsulates cognitive, emotional and behavioral patterns to understand consumers' perceptions and reactions of ancillary fees. In the next section we develop hypotheses about the linkages between fee appraisals, fee-related anger, and coping behaviors.

2.2. Primary and secondary appraisal of fees

Maxwell (2002) argues that certain pricing practices have become "rules of process" which are considered unfair if they are violated. Similarly, other scholars have argued that people are not willing to tolerate a price if it violates the existing pricing structure (e.g., charging first-time fees for services that were provided for free) (Chung and Petrick, 2012; McCarville et al., 1996). We propose that ancillary fees that are instituted for even the most basic services also violate fairness norms. If consumers do not recognize value being created in return, the focal fee is perceived as arbitrary and unfair (Cox, 2001; Herrmann et al., 2007). Following the rationale of Lazarus and Folkman (1984), individuals that are confronted with fees (i.e., a "stressor") evaluate the relevance of the situation whether it is harmful, threatening or challenging to their well-being. Williams et al. (1999, p. 251) note that the "response to fees is likely to depend on awareness of potential fee benefits." The authors found that the tolerance for each focal fee differs and that "fees are not uniformly appropriate" (Williams et al., 1999, p. 262). We thus propose:

Hypothesis 1. Consumers' appraisal of ancillary fees within a consumer services industry will vary; fees affecting a person's well-being or that are inconsistent with his/her own wants will be less acceptable.

Building further on Lazarus and Folkman's cognitive appraisal process, we propose that individuals experience a second appraisal stage depending on the severity of the "stressor", i.e., the violation of fairness norms. Research suggests that a violation of fairness norms creates a sense of betrayal for customers (Grégoire and Fisher, 2008). The term *betrayal* is defined as "a customer's belief that a firm has intentionally violated what is normative in the context of [his or her] relationship" (Grégoire and Fisher, 2008, p. 250; see also Ward and Ostrom, 2006). Research has investigated betrayal in the context of close relationships (Finkel et al., 2002), e.g., employer–employee relationships (Elangovan and Shapiro, 1998), and more recently, service failures and poor recovery (Grégoire and Fisher, 2008). In service contexts, betrayal indicates a firm's violation of trust, acts of cheating, or taking advantage of customers (Elangovan and Shapiro, 1998). While Lazarus and Folkman (1984) suggest that the secondary appraisal is an assessment of one's coping resources and options, we consider perceived betrayal as an indication that individuals did not have control over the situation and blame the service provider for the norm violation. We thus propose:

Hypothesis 2. Customers' acceptability (versus unacceptability) of ancillary fees is negatively (positively) related to perceived betrayal.

It is recognized that customers experience emotions (e.g., positive such as joy, delight and negative such as frustration, anger) when consuming services (Babin et al., 2013; McColl-Kennedy and