

Massive experiment shows why ticket sellers hit you with last-second fees

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A view of a StubHub office in New York City City . Credit: John Nacion/STAR MAX/IPx 2020 10/21/20

There's a reason that online ticket sellers hit you with those extra fees after you've picked your seats and are ready to click "buy."

Pure profit.

A massive field experiment by Berkeley Haas Prof. Steven Tadelis with the online ticket marketplace StubHub concluded that so-called "drip pricing"—whereby additional fees are only disclosed when customers are ready to confirm their purchases—resulted in people spending about 21% more. It's a particularly effective strategy for [online sales](#), which in the past two years has overtaken brick-and-mortar shopping.

"Websites that incorporate 'hidden fees' that are only revealed at checkout are making more money than they would if they chose to honestly display all fees upfront," Tadelis said.

Drip pricing in action

The study, co-authored by Tadelis and forthcoming in *Marketing Science*, set out to better understand how "drip pricing" affects both the quantity and types of ticket purchases through a large-scale, real-world randomized experiment. Co-authors are Sarah Moshary of the University of Chicago; Kane Sweeney, former head of data science for StubHub and now of health-tech startup Mindstrong; and Thomas Blake, an economist and data scientist now with Amazon.

"Economic theory has pretty clear predictions on how hiding mandatory fees makes consumers buy more, and prior work hinted at the kind of behavioral biases that we were likely to see," Tadelis said. "However, few studies had examined this question at such a scale."

Prior to the fall of 2015, when the experiment began, StubHub had displayed all-inclusive prices when a user first arrived on the site looking for tickets. This upfront-fee pricing strategy included all required fees, which generally amounted to 15% of the [ticket price](#) plus shipping and handling.

For the experiment, StubHub randomly assigned half of all U.S. users, who count in the millions, to an experimental back-end—or hidden—fee structure where buyers saw only the ticket list price as they shopped, and extra fees were only displayed on the checkout page. The other half of StubHub users continued to see the all-inclusive prices. This setup allowed Tadelis and his colleagues to compare the choices made by the two groups, such as purchases and clicks towards checkout.

Overall, the StubHub users who weren't shown fees until checkout spent about 21% more on tickets and were 14% more likely to complete a purchase compared with those who saw all-inclusive prices from the start.

Among all those who made purchases, customers in the hidden-fee group bought tickets that were about 5% more expensive than those in the up-front fee group, buying more tickets on average for seats located closer to the field or the event stage. Choosing these higher-priced seats accounted for about a quarter of the 21% spending increase by the hidden-fee group.

Misinformed buyers

These results implied that the hidden-fee buyers were misinformed about the total purchase price. To explore this idea, the researchers examined how users clicked around StubHub. The hidden-fee buyers were much more likely to click on tickets on the initial website landing page—their click rate was about 19% higher than those who saw the full price. However, their purchases dropped off much more steeply when the fees were sprung on them at checkout: They were about 45% less likely to make a purchase than those who saw the full price up front. Hidden-fee users were then more likely to go back and search other ticket listings.

Shortly after the experiment, StubHub changed the price structure across the whole site to use back-end fees, hiding them until the checkout page. Because the site differs from traditional retailers in that it's a two-sided marketplace, with sellers who are individual users, the researchers wanted to know how the sellers responded to the price structure change. They found that the ticket sellers began listing more higher-quality tickets located closer to the event stages, consistent with buyers purchasing more expensive tickets. They also saw that sellers were more likely to set ticket [prices](#) at round numbers—which have been shown to be more appealing to consumers—when they knew that buyers wouldn't see the taxes and fees until the last stage of [purchase](#).

These days, extra fees are pretty standard in the ticket sales industry, and presumably, many users expect them. So, the researchers separated out the more experienced StubHub users to see whether the sales boost from hidden-fees declines when people know they're coming. Indeed, they found that buyers with at least ten previous site visits spent less than the newbies in the hidden-fee group. Even so, the veteran shoppers still spent 15% more with hidden-fee pricing relative to the StubHub veterans who saw the full price up front. This suggests, Tadelis said, that the boost to sellers from drip pricing may be even bigger for infrequent consumer purchases, such as cars or homes.

"There is no reason to expect new visitors to a site to have correct beliefs about fees, and once they have their sights on an item, letting go of it becomes hard—as scores of studies in behavioral economics have shown," Tadelis said. "People end up making purchases that in hindsight they would not have made."

The findings raise questions for whether consumers have a right to full price disclosure up front. He noted that some governments have considered regulating this behavior to increase transparency—Canada, for example, has banned the use of drip pricing for ticket sales. Tadelis

noted that In June of 2019, the Canadian Competition Bureau fined Ticketmaster \$4 million—plus another \$500,000 for the government's investigation costs—for the ticket seller's practice of using back-end fees that mislead consumers, according to Canadian consumer protection law.

"I can't think of a good reason to allow this practice in any country as the harm to consumers is clear from our study," Tadelis said.

More information: Price Salience and Product Choice.
faculty.haas.berkeley.edu/stadelis/AIP.pdf

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