

Junk fees and drip pricing: The underhanded tactics we hate yet still fall for

August 23 2023, by Ralf Steinhauser



Credit: AI-generated image ([disclaimer](#))

You see a fantastic offer, like a hotel room. You decide to book. Then it turns out there is a service fee. Then a cleaning fee. Then a few other extra costs. By the time you pay the final price, it is no longer the fantastic offer you thought.

Welcome to the world of drip pricing—the practice of advertising something at an attractive headline price and then, once you've committed to the purchase process, hitting you with unavoidable extra fees that are incrementally disclosed, or "dripped."

Drip pricing—a type of "junk fee"—is notorious in event and travel ticketing, and is creeping into other areas, such as movie tickets. My daughter, for example, was surprised to find her ticket to the Barbie movie had a "booking fee," increasing the cost of her ticket by 13%.

It seems like such an annoying trick that you may wonder why sellers do it. The reason is because it works, due to two fundamental cognitive biases: the way we value the present over the future; and the way we hate losses more than we love gains.

Present bias preference: Why starting over feels too costly

In the case of booking that hotel room, you could abandon the transaction and look for something cheaper once the extra charges become apparent. But there's a good chance you won't, due to the effort and time involved.

This is where the trap lies.

Resistance to the idea of starting the search all over again is not simply a matter of laziness or indecision. There's a profound psychological mechanism at play here, called a present-bias preference—that we value things immediately in front of us more than things more distant in the future.

In their seminal 1999 paper, [Doing it now or later](#), economists Mathew

Rabin and Ted O'Donoghue define present-biased preference as "the human tendency to grab immediate rewards and to avoid immediate costs."

They give the example of choosing between doing seven hours of unpleasant activity on April 1 or eight hours two weeks later. If asked about this a few months beforehand, most people will choose the earlier option. "But come April 1, given the same choice, most of us are apt to put off work till April 15."

In simple terms, the inconvenience and effort of doing something "right now" often feels disproportionately large.

Drip pricing exploits this cognitive bias by getting you to make a decision and commit to the transaction process. When you're far into a complicated booking process and extra prices get added, starting all over again feels like a burden.

Often enough, this means you'll settle for the higher-priced hotel room.

Loss aversion: Buying more expensive tickets

Beyond the challenge of starting over, there's another subtle force at work when it comes to our spending decisions. Drip pricing doesn't just capitalize on our desire for immediate rewards; it also plays on our innate fear of losing out.

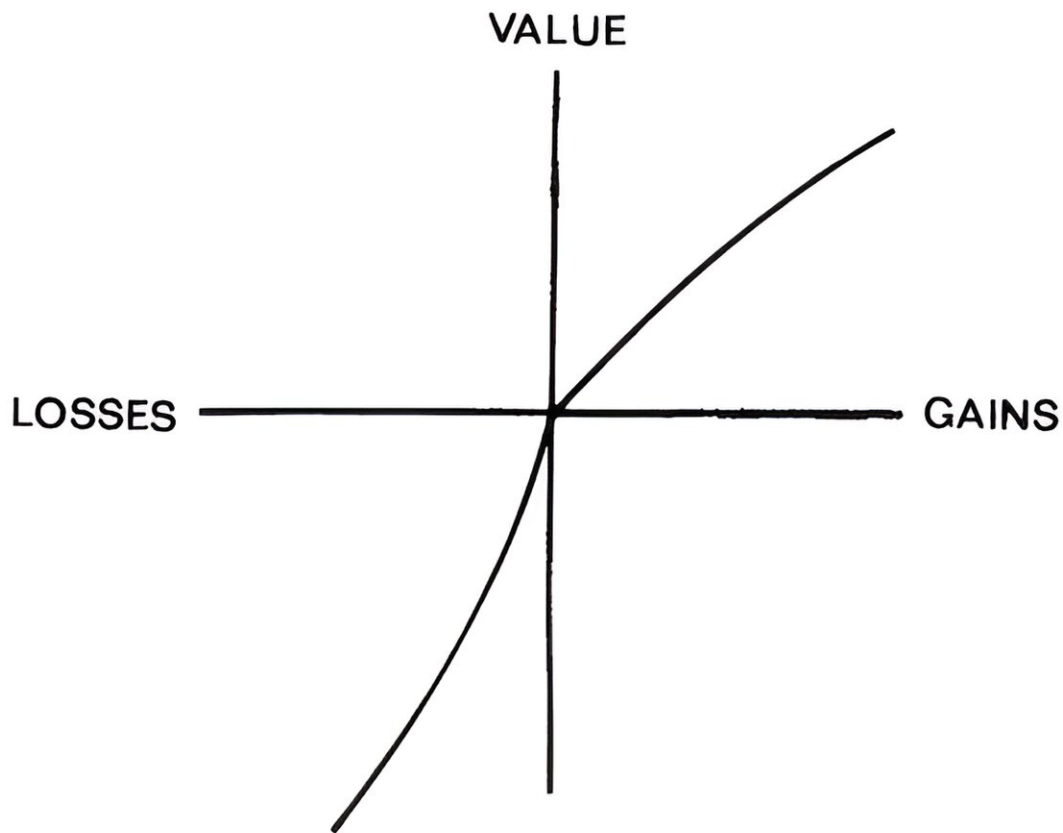


FIGURE 3.—A hypothetical value function.

How economists Daniel Kahneman and Amos Tversky graphically represented loss aversion. The pain from losing a good or service is greater than the pleasure from gaining the same good or service. Credit: Daniel Kahneman and Amos Tversky, Prospect Theory: An Analysis of Decision under Risk, *Econometrica*, Vol. 47, No. 2

This second psychological phenomenon that drip pricing exploits is known as loss aversion—that we feel more pain from losing something than pleasure from gaining the same thing.

The concept of loss aversion was first outlined by economists Daniel Kahneman and Amos Tversky in [a 1979 paper](#) that is the third most-cited article in economics.

Drip pricing exploits this tendency, by dragging us away from more "rational" choices.

Imagine you're booking tickets for a show. Initially attracted by the observed headline price, you are now presented with different seating categories. Seeing the "VIP" are within your budget, you decide to splurge.

But then, during the checkout process, the drip of extra costs begins. You realize you could have opted for lower-category seats and stayed within your budget. But by this stage you've already changed your expectation and imagined yourself enjoying the show from those nice seats.

Going back and booking cheaper seats will feel like a loss.

Do consumers need protection?

Empirical evidence supports the above theoretical predictions about the impact of drop pricing on consumers.

[A 2020 study](#) quantified how much consumers dislike the lack of transparency in drip pricing (based on tracking the reactions of 225 undergraduates using fictional airline and hotel-booking websites). The authors liken the practice to the "taximeter effect"—the discomfort consumers feel watching costs accumulate.

But drip pricing's effectiveness from a seller's perspective is undeniable. A [experimental study](#) published in 2020 found drip pricing generates

higher profits while lowering the "consumer surplus" (the benefit derived from buying a product or service). A [2021 analysis](#) of data from StubHub, a US website for reselling tickets, calculated drip pricing increased revenue by 20%.

Which is why the tactic remains attractive to businesses despite customers disliking it.

Buyers would benefit from a ban of drip pricing. Many countries are taking steps to protect consumers from drip [pricing](#).

The UK government, for example, announced a [review of drip pricing](#) in June, with Prime Minister Rishi Sunak flagging the possibility of measures to curb the practice. The US government is also considering [new regulations](#), with President Joe Biden denouncing "junk fees" in his [2023 State of the Union address](#). Proposed changes include requiring airlines and online booking services to disclose the full ticket price upfront, inclusive of baggage and other fees.

The effectiveness of measures, however, is [still being debated](#).

In the meantime, your principal protection is making a more informed decision, by understanding why the tactic works. Bargains may attract you, but you can learn to not fall for hidden costs and align your choices with your budget and values.

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