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**Resort Fees and Service Fees in the U.S. Hotel Industry:  
Context and Concepts Related to Partitioned Pricing**

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## Abstract

Though hotel resort fees and other service charges are a source of considerable revenue at certain U.S. hotels, most hotels do not charge such fees, and among those that do, they do so for specific and unique market-based reasons such as the behavior of competition. This report reviews the concept of resort fees in an effort to provide a balanced perspective regarding service fees in the light of sensational media reports about the topic. This report finds that only approximately seven percent of U.S. hotels charge such fees, and such fees are mainly limited to resort hotels in certain markets. This report introduces the topic of partitioned pricing whereby prices quoted to consumers by businesses are broken into their component parts, a practice appearing to be common, appropriate, and preferred by consumers as well as businesses in particular types of transactions which may include certain hotel-consumer sales.

## Introduction

According to a recent report, U.S. hotels collected record amounts of resort fees and other surcharges totaling \$2.47 billion in 2015,<sup>1</sup> leading to sensational mainstream media coverage with headlines such as “Hidden hotel resort fees not going away any time soon.”<sup>2</sup> The purpose of this report is to provide a balanced perspective regarding resort fees and other surcharges at U.S. hotels. Resort fees are a type of service charge at hotels for such things as Internet services, fitness facilities, local telephone calls, newspapers, bottled water<sup>3</sup> and in-room safes.<sup>4</sup> Though the vast majority of U.S. hotels do not charge resort fees, it is generally considered compulsory at those hotels having them.

Approximately seven percent of U.S. hotel properties charge resort fees,<sup>5</sup> and it is notable that most of those properties are resort hotels in particular markets with proportionately high levels of leisure travelers, such as Orlando and Las Vegas. Resort hotels are different from other hotel properties because among other things, they offer extensive ancillary facilities, amenities and services, such as large and/or extensive exercise gymnasiums, large and/or unusual

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<sup>1</sup> Jones, C. (2015, August 26). Hotels on track to collect record surcharges and fees this year, report says. *USA Today*. Retrieved from <http://www.usatoday.com/story/travel/hotels/2015/08/25/hotels-charge-record-fees/32345383/>.

<sup>2</sup> FoxNews.com (2015, August 5). Hidden hotel resort fees not going away any time soon. <http://www.foxnews.com/travel/2015/08/05/hotel-resort-fees-not-going-away-any-time-soon/>

<sup>3</sup> Roe, S. J., & Repetti, T. (2014). Consumer perceptions of resort fees and their impact on hotel selection. *Journal of Hospitality Marketing & Management*, 23, 564–578. doi:10.1080/19368623.2013.805314.

<sup>4</sup> Jones. 2015.

<sup>5</sup> Jones. 2015.

swimming pools, entertainment, transportation, concierge and tour services, and other recreational amenities.<sup>6</sup>

Many resort owners often consider these broad and expansive offerings to be supplemental to the guest room provided. Managers want to provide amenities to their guests in a hospitable fashion without having to police guests throughout the resort property to make certain every person using these amenities has compensated the resort for the expense of providing and maintaining them. As a result, many operators charge a daily resort fee to cover the ancillary costs. It is notable that such resort fees are unusual in traditional commercial hotels where such ancillary offerings are generally much less extensive, and to the extent extra amenities may be provided, typical commercial guests are much less likely to avail themselves of such things than the leisure guests who predominate resort hotels.

Service fees such as resort fees are common in a variety of industries in the Western world. Examples include banking, retailing, event ticketing, rental cars, real estate, utilities like cell phone service, and secondary education. This paper aims to synthesize research related to a variety of industries, including the hospitality industry to provide information and guidance to hospitality industry practitioners.

### **Background about Service Fees and Partitioned Pricing**

Service fees, service charges or surcharges are common throughout the modern economy. Such fees range from mandatory taxes where the payer receives no direct benefit specifically related to the fee, to discretionary fees where the payer is compensating an entity for a specific benefit. Tips are often considered to be a type of service fee, as well,<sup>7</sup> and such a fee may be mandatory or discretionary. Other common service fees include restocking fees, cancellation fees,<sup>8</sup> travel agency user fees and/or port charges,<sup>9</sup> shipping and handling charges, and delivery

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<sup>6</sup> Rushmore, S., O'Neill, J.W., & Rushmore, S., Jr. (2012). *Hotel Market Analysis and Valuation: International Issues and Software Applications*. Chicago: Appraisal Institute.

<sup>7</sup> Wang, S., & Lynn, M. (2007). The effects on perceived restaurant expensiveness of tipping and its alternatives. *Cornell Hospitality Report*, 7(3), 4–20.

<sup>8</sup> Ancarani, F., Gerstner, E., Posselt, T., & Radic, D. (2009). Could higher fees lead to lower prices? *Journal of Product & Brand Management*, 18, 297–305. doi:10.1108/10610420910972828.

<sup>9</sup> Morwitz, V.G., Greenleaf, E.A., & Johnson, E. J. (1998). Divide and prosper: Consumers' reaction to partitioned prices. *Journal of Marketing Research*, 35, 453–463. doi:10.2307/3152164.

charges.<sup>10</sup> Such an integrated pricing structure for goods and services is often referred to as *partitioned* pricing and is distinguished from bundled pricing where prices are inclusive. Partitioned pricing is generally defined as a pricing structure where an overall price is divided into component parts, and these parts are communicated to the consumer.<sup>11</sup> On the other hand, bundled pricing refers to a structure where a single, inclusive price is quoted to consumers.<sup>12</sup>

Partitioned pricing with service fees has been shown to be common in a variety of businesses such as commercial banks, retailing, rental cars, event ticketing, real estate, cell phone service and other utilities.<sup>13</sup> Such fees also exist in the field of secondary education<sup>14</sup> where surcharges may include technology fees or student service fees that are usually mandatory.

Partitioned pricing may include extra fees for extraordinary services, such as paying a dry cleaner an extra fee for cleaning one's clothes more expeditiously than the norm, e.g., one day early. Such fees are typically set at an agreed-upon amount for all patrons. However, agreed-upon amounts for extra services are not the norm in all situations. For example, patrons of restaurants or hotels may offer a tip to a service employee in advance of receiving service in anticipation of benefitting from something extraordinary, such as tipping a *maître d'* to encourage assignment at a table with a desirable view.

Partitioned pricing may also include fees for extraordinary products, such as extra charges at a coffee shop for adding a unique flavoring to a cup of coffee. In such cases, patrons desiring something extra will pay for it. Though the previous example is related to a product as opposed to a service, in each of these cases, it is clear that while partitioned pricing may be driven by sellers, i.e., companies, consumers often desire partitioned pricing or consider it preferable.

In general, consumers are relatively less sensitive to surcharges associated with a high benefit component of a product or service.<sup>15</sup> Thus, while consumers tend to be concerned about

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<sup>10</sup> Morwitz, V.G., Greanleaf, E.A., Shalev, E., & Johnson, E.J. (2009). The price does not include additional taxes, fees, and surcharges: A review of research on partitioned pricing. *SSRN Electronic Journal*, 1-54.

<sup>11</sup> Moritz et al. 2009.

<sup>12</sup> Moritz et al. 2009.

<sup>13</sup> Moritz et al. 2009.

<sup>14</sup> Walden, M. (2007). Economic perspective: Taxes versus fees. North Carolina State University.

<sup>15</sup> Morwitz et al. 2009.

service fees that appear to provide little or no benefit, such as booking charges or licensing fees, they are less resistant to service fees where actual and extra services are provided,<sup>16</sup> such as resort fees. In addition, consumers are less sensitive to service charges they believe to be unavoidable.<sup>17</sup> On the other hand, as surcharges become more numerous, consumers pay more attention to them.<sup>18</sup>

### **Partitioned Pricing and the Hospitality Industry**

Partitioned pricing in the hospitality industry includes resort fees. While basic resort fees are not unusual at resort hotels in particular markets with relatively high volumes of leisure traffic, some hospitality operations have taken the concept of partitioned pricing even further. For example, Europe's easyHotel brand charges guests for not only typical add-ons such as Internet access, but they charge for such amenities as television access as well (easyHotel.com). Such a type of pay-as-you-go structure is a particular form of partitioned pricing which may be as market response to the competitive forces of low cost operators, causing some operators to offer increasingly customized prices where consumers pay based on what services and/or amenities they use or anticipate using.

Partitioned pricing is used by organizations because it can convey to consumers that a portion of the price goes to other firms or agencies and may not contribute to an organization's profit, such as when taxes, airport concession fees or fuel surcharges are priced separately by rental car companies and airlines.<sup>19</sup> Such pricing has been shown to enhance the informational effect of pricing for consumers, i.e., it is more positive<sup>20</sup> as it assists consumers with understanding the various components of the product and/or service they are purchasing. Partitioned prices may also be used to communicate to consumers that a worthy party is benefiting from the surcharge, such as restaurant kitchen staff receiving compensation from a service charge.<sup>21</sup> Another benefit of this type of pricing is that it may also be used to

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<sup>16</sup> Morwitz et al. 2009.

<sup>17</sup> Morwitz et al. 2009.

<sup>18</sup> Morwitz et al. 2009.

<sup>19</sup> Morwitz et al. 2009.

<sup>20</sup> Völckner, F., Rühle, A., & Spann, M. (2012). To divide or not to divide? The impact of partitioned pricing on the informational and sacrifice effects of price. *Marketing Letters*, 23, 719–730. doi:10.1007/s11002-012-9174-5.

<sup>21</sup> Morwitz et al. 2009.

communicate to consumers information regarding how prices are determined,<sup>22</sup> and resort fees serve this purpose.

Partitioned pricing may also be used to direct consumers to less costly and/or more efficient routes through which to conduct business, such as online versus telephone booking.<sup>23</sup> On the other hand, organizations that do not charge such fees will often promote themselves as having a point of differentiation over those who do<sup>24</sup> which may provide them with a competitive advantage.<sup>25</sup> found that the effectiveness of partitioned pricing depends on the perceived fairness of the surcharge by the consumer. Research has indicated that partitioned pricing reduces the likelihood of purchases when consumers are considering buying from low-reputation sellers or when surcharges are perceived to be relatively high or unreasonable.<sup>26</sup> Partitioned pricing may have a negative effect on consumers' perceptions in cases where consumers perceive higher prices to correlate with higher quality.<sup>27</sup> Such cases where it may be preferable for organizations to quote a relatively high bundled price over a partitioned one could include products or services that often carry lofty prestige such as high performance cars and boats, cosmetic surgeries, liberal arts educations or even certain luxury resorts.

Research has further indicated that the use of partitioned pricing with supplementary fees tends to reduce overall prices for consumers in a number of industries, including hotels, restaurants, airlines and retailing where certain supplemental fees have lowered costs for the provider as well as prices for the consumer.<sup>28</sup> Examples of these effects in the hotel, restaurant and airline industries have included cancellation fees that have had the effect of reducing consumer abuse of cancellation policies. Late check-out fees may have had the effect of minimizing hotel guests overstaying beyond the check-out time.<sup>29</sup> Similarly, in the retail

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<sup>22</sup> Morwitz et al. 2009.

<sup>23</sup> Manning, J. (2003). The proliferation of surcharging. *Journal of Revenue and Pricing Management*, 2, 255–260. doi:10.1057/palgrave.rpm.5170072.

<sup>24</sup> Roe & Repetti. 2014.

<sup>25</sup> Sheng, S., Bao, Y., & Pan, Y. (2007). Partitioning or bundling? Perceived fairness of the surcharge makes a difference. *Psychology and Marketing*, 24, 1025–1041. doi:10.1002/mar.20194.

<sup>26</sup> Cheema, A. (2008). Surcharges and seller reputation. *Journal of Consumer Research*, 35, 167–177. doi:10.1086/529532.

<sup>27</sup> Volckner et al. 2012.

<sup>28</sup> Ancarani, F., Gerstner, E., Posselt, T., & Radic, D. (2009). Could higher fees lead to lower prices? *Journal of Product & Brand Management*, 18, 297–305. doi:10.1108/10610420910972828.

<sup>29</sup> Jones. 2015.

industry, restocking fees have had the effect of reducing consumer abuse of money-back guarantees.<sup>30</sup>

Bundled pricing may result in increased consumer purchase intentions over partitioned pricing.<sup>31</sup> Similarly, partitioned pricing may increase consumer purchase intentions in certain circumstances. Though 67.0 percent of hotel consumers have been reported to prefer bundled pricing over partitioned pricing, with 33.0 percent preferring partitioned pricing,<sup>32</sup> consumer preferences for partitioned versus bundled prices may depend on the consumers themselves given how much time and energy they want to commit to their purchase decision. Kim and Kramer,<sup>33</sup> and Burman and Biswas,<sup>34</sup> for example, found consumers' preferences for partitioned prices depended on whether the individuals had high versus low need for cognition, i.e., the tendency to engage in and enjoy effortful cognitive activity. Other research indicates that consumer resistance to surcharges decreases as the surcharge decreases as a percentage of the base price.<sup>35</sup> Thus, any single pricing methodology is not preferable in all situations.

In the hotel industry, operators may have been incented to add new surcharges in recent years as previous revenue sources have virtually vanished. Examples of decreased revenues include sales of in-room movies and telephone calls as guests are carrying with them their own devices, and hoteliers probably have reacted to continued increases in their operating costs.<sup>36</sup>

In summary, partitioned pricing may be preferable in situations when consumers have time and energy for the cognition needed to evaluate such prices, and when hotel operators otherwise have limited ability to increase rates due to heavy competition for guests who are paying out of their own pockets. Such circumstances suggest partitioned pricing may be most supported in resort hotels and in hotels with a high proportion of leisure-oriented guests. On the other hand, bundled pricing may be the superior approach in circumstances when expediency of the transaction is most desirable and in properties with a high proportion of commercial guests.

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<sup>30</sup> Ancarani. 2009.

<sup>31</sup> Kim, H. M. (2006). The effect of salience on mental accounting: how integration versus segregation of payment influences purchase decisions. *Journal of Behavioral Decision Making*, 19, 381–391. doi:10.1002/bdm.534.

<sup>32</sup> Repetti, T., Roe, S., & Gregory, A. (2015). Pricing strategies for resort fees: Consumer preferences favor simplicity. *International Journal of Contemporary Hospitality Management*, 27, 790–809. doi:10.1108/IJCHM-06-2013-0237.

<sup>33</sup> Kim, H. M., & Kramer, T. (2006). The moderating effects of need for cognition and cognitive effort on responses to multi-dimensional prices. *Marketing Letters*, 17, 193–203. doi:10.1007/s11002-006-5928-2.

<sup>34</sup> Burman, B., & Biswas, A. (2007). Partitioned pricing: Can we always divide and prosper? *Journal of Retailing*, 83, 423–436. doi:10.1016/j.jretai.2007.03.007.

<sup>35</sup> Sheng et al. 2007.

<sup>36</sup> Jones. 2015.



Partitioned pricing may almost never be advisable in hotels suffering from reputation problems, e.g., considering the property’s online guest evaluations.

In the hotel industry, approximately seven percent of properties reportedly charged mandatory resort fees in 2014,<sup>37</sup> typically between \$10 and \$25 per guest room per night.<sup>38</sup> Such fees began to appear in the hotel industry in 1997 when they were typically referred to as amenities tariffs. In recent years, such fees have become increasingly visible at hotels charging them as hoteliers have more proactively disclosed resort fees. They generally cover such items as the use of Internet services, fitness facilities, local telephone calls, newspapers, bottled water,<sup>39</sup> and in-room safes.<sup>40</sup>

Research has found that most consumers would either prefer to have a relatively lower hotel room rate and also pay a resort fee, or they have no preference, while a minority of consumers would prefer to pay a relatively higher room rate with no resort fee.<sup>41</sup> Thus, the presence or absence of resort fees is only a single factor considered by consumers during their purchase decisions. The overall price and value are equally, if not more important than the articulation of a resort fee.

<b>Acceptable Service and Resort Fees in the Hotel Industry</b>
Internet access
Airport shuttles
Entertainment
Food & beverage
Parking

Hotel consumers have indicated that they are most willing to pay resorts fees for (in order of preference) Internet access, airport shuttles, entertainment, food & beverage and parking<sup>42</sup> as shown in the table. It has been reported that 70.2 percent of hotel guests found out about resort fees from hotel websites, indicating that the majority of consumers are aware of the existence of hotel resort fees before they check in and resort fees are discernible in online booking channels.<sup>43</sup>

<sup>37</sup> Jones. 2015.

<sup>38</sup> Repetti et al. 2015.

<sup>39</sup> Roe & Repetti. 2014.

<sup>40</sup> Jones. 2015.

<sup>41</sup> Roe & Repetti. 2014.

<sup>42</sup> Roe & Repetti. 2014.

<sup>43</sup> Roe & Repetti. 2014.

It has been reported that resort fees became more transparent between 2010 and 2014.<sup>44</sup> Considering this recent trend regarding resort fees, as well as the overall trend of increased price transparency in the hotel industry in general, it is likely that resort fees may become even more transparent in the future. To a large extent, the hotel industry appears to have been a willing partner with consumers in communicating to consumers about resort fees. Of those consumers who have not learned about resort fees at the time they booked their hotel reservation, most indicated they knew about them from a prior stay.<sup>45</sup> Research suggests that consumers are increasingly aware of resort fees as well as more observant during the booking process.<sup>46</sup>

### Conclusions

In summary, service fees like resort fees are common in a wide variety of consumer experiences in a number of purchase contexts. These include commercial banks, retailing, rental cars, event ticketing, real estate, cell phone service and other utilities, and the field of secondary education, in addition to the hotel industry. Regarding hotel resort fees, only approximately seven percent of hotels charge mandatory resort fees, and most properties doing so are unique resorts with extensive amenities and services, and with a high proportion of leisure guests. Research suggests that it may be advisable for hotels to have service fees and resort fees in situations where the property caters to a relatively high proportion of leisure guests and a low proportion of commercial guests, as described in this paper.

As discussed in this paper, there are advantages and disadvantages to partitioned pricing with resort fees and other service charges. There are cases when consumers prefer partitioned pricing with surcharges, and other cases when they prefer bundled pricing. As would be expected, different operators in the diverse hotel industry follow different practices based on the marketplaces in which they operate and the consumers they serve. After reviewing the current state of resort fees and service fees in the U.S. hotel industry, it is apparent that hoteliers charging them are in the minority. Hotel owners/operators should conduct due diligence regarding the wisdom of implementing such fees based on their own unique geographic location, compilation of property amenities, and other factors as discussed herein. Each case is idiosyncratic.

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<sup>44</sup> Roe & Repetti. 2014.

<sup>45</sup> Roe & Repetti. 2014.

<sup>46</sup> Roe & Repetti. 2014.

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