

# Shifting the Blame: How Surcharge Pricing Influences Blame Attributions for a Service Price Increase

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# Shifting the Blame: How Surcharge Pricing Influences Blame Attributions for a Service Price Increase

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## Abstract

The proliferation of surcharges in service pricing raises theoretical and pragmatic questions regarding their impact on consumers. This research investigates how surcharges influence consumer responses to a service price increase. We propose that various kinds of surcharge information act in concert to drive blame attributions for a price increase: Internal (vs. external) surcharges increase blame attributions and minimize the influence of other drivers captured in surcharge information such as temporal stability, surcharge benefit, and more than one kind of surcharge. In comparison to all-inclusive pricing, we find that (i) surcharge pricing is detrimental to service firms when surcharges cue internal locus of causality, regardless of the temporal stability or surcharge benefit, whereas (ii) surcharge pricing is beneficial when surcharges cue external locus of causality, particularly when the surcharges are permanent and high benefit; (iii) consumers are more sensitive to increases in the magnitude of internal (vs. external) surcharges; and (iv) in the case of mixed surcharges, internal surcharges are more prominent and minimize the buffering effect of adding external surcharges. Based on our findings, we make recommendations to managers on the optimal design of surcharge pricing to mitigate negative blame reactions when communicating service price increases to consumers.

## Keywords

surcharge, blame, attributions, price perceptions

Surcharges (i.e., additional mandatory charges for performing a service, which are added to the base price of the service) are frequently used when prices and, moreover, price increases are communicated to consumers. In the service sector, surcharges account for up to 20% of total revenues of companies across different industries, such as airlines or car rentals (Michaels 2011). A case in point is the U.S. lodging industry, where fees and surcharges increased by nearly 60% over 10 years to a record level of US\$2.55 billion in 2016 (Rosenbloom 2017). Further, surcharge pricing receives considerable media attention with the majority of coverage devoted to the services sector (see Figure 1), which emphasizes the importance of understanding surcharge pricing of services.

Surcharges are imposed for a variety of reasons. For example, San Francisco restaurants introduced a 3% to 4% health surcharge on meal prices to cover city-mandated employee health-care expenses (Michaels 2011). Similarly, German airlines raised ticket prices in 2011 due to a government air travel levy on CO<sub>2</sub> emissions (Thomas and Buyck 2010). In comparison, U.S. airlines raised prices and implemented surcharges due to increased internal costs of wages (Reed 2009). As these examples attest, surcharges may be short or long term, due to internal or external causes, and associated with low or high consumer benefits. These examples also illustrate how service companies can choose to add surcharge information when announcing price increases, which prompts the following

question: How does surcharge pricing affect consumer response to a price increase?

To address this question, we investigate how causal information embedded in surcharges affects consumer responses to a service price increase. We propose that consumers respond to a price increase by attributing blame—a negative, relatively spontaneous causal evaluation of a harmful action—and that blame can be systematically altered if causal information is clarified, or made transparent, via surcharges. Understanding how surcharges affect consumer blame should, in turn, address several key questions: When should service companies use surcharge pricing to accompany a price increase? What types of surcharges help (vs. hurt) companies? and What are the consumer consequences of surcharge pricing?

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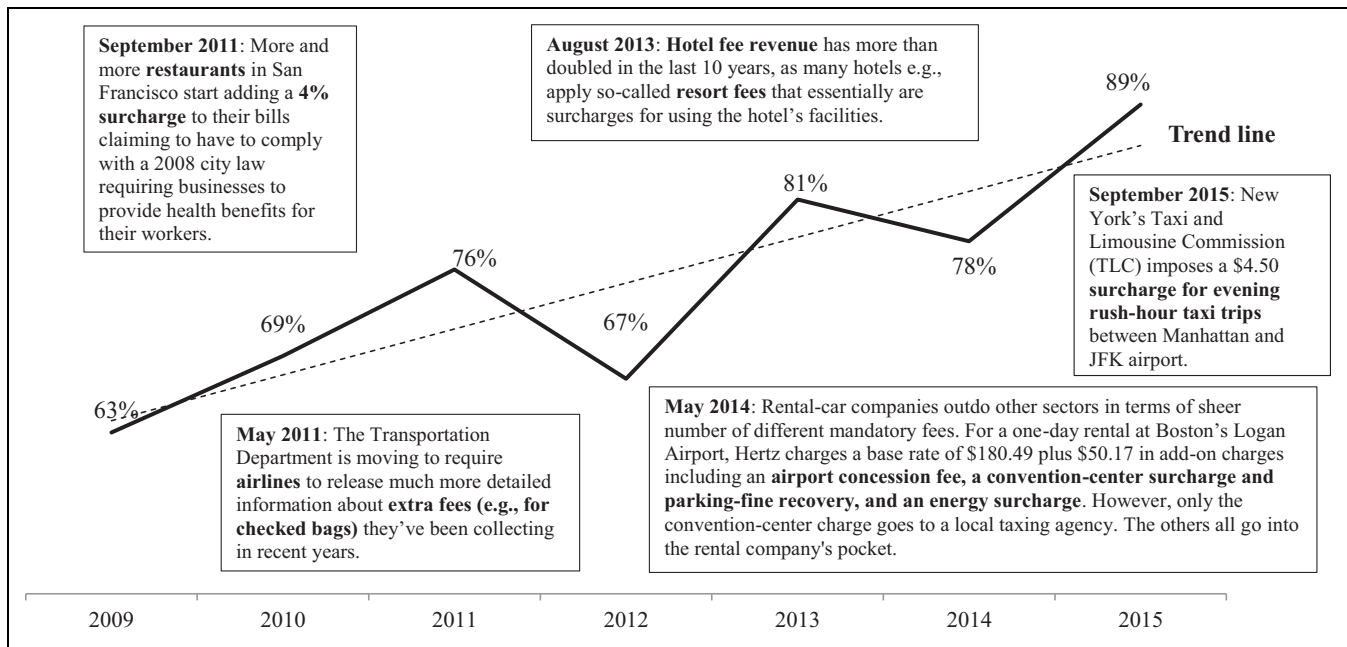
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**Figure 1.** World media mentions of services surcharges. Calculations are based on a Lexis-Nexis search of all articles in major local and international newspapers mentioning the term “surcharge” in a sample period in the years 2009 to 2015. The percentage estimate was calculated as follows: (i) the denominator is the number of “surcharge” articles that mention a company by name and (ii) the numerator is the number of those “surcharge” articles where the company is in the services sector. Quotes are included for illustrative purposes to show examples of media coverage from cited sources (i.e., Glusac 2015; *Huffington Post* 2014; Michaels 2011; Sharkey 2011, 2013; Worthen 2011).

Our research addresses these managerially important questions by (1) comparing surcharge pricing to all-inclusive pricing to determine the conditions under which surcharge pricing is beneficial or detrimental to firms; (2) identifying key characteristics of a surcharge—locus of causality, temporal stability, and perceived benefit—that systematically alter blame attributions as well as downstream consumer response (e.g., anger, price fairness, word of mouth [WOM], behavioral intentions); and (3) examining how consumers respond to both single and multiple surcharges to improve our understanding of how surcharges act in concert to affect consumer response. Doing so provides managers with guidance on how to optimally design surcharge pricing and communicate price increases. In addition to providing managerial guidance, our research is relevant to public policy (since any potential manipulation of price communications raises the question of regulatory protection).

Finally, our research contributes theoretically by drawing on attribution theory to understand its role in consumer response to surcharges (cf. Greenleaf et al. 2016; Xia, Monroe, and Cox 2004), by extending the surcharge pricing literature to incorporate additional theoretically and pragmatically relevant surcharge characteristics (e.g., temporal stability, perceived benefit), and by investigating both individual and multiple surcharges (Voester, Ivens, and Leischnig 2016). We thereby expand our understanding of the psychological processes that underlie consumer response to surcharge pricing. The theoretical and managerial implications of our work are explored in more depth in the General Discussion section.

## Surcharge Pricing and Blame

### Surcharge Pricing

The practice of surcharge pricing is widely followed in service industries such as banking, airline or fuel services, and security provision. It is mainly used to distinguish between the different cost components, such as a service or additional fee, and the basic service price (Greenleaf et al. 2016). Surcharge pricing can be defined as the levying of an additional monetary charge for a component that is being newly introduced or that formerly had been provided for free (either in an overt or covert way). An important characteristic of surcharge pricing is that consumers typically cannot avoid the surcharges when paying for the basic product or service (in contrast to service bundling in which a firm prices offerings together but the components can be purchased separately; Folkmann et al. 2017).

Surcharges have drawn the attention of practitioners and academics, as they are used in different pricing tactics such as drip pricing, shrouded pricing, price bundling, and price partitioning (Chakravarti et al. 2002; Greenleaf et al. 2016; Johnson, Hermann, and Bauer 1999; Stremersch and Tellis 2002). Our research builds on these literatures and is relevant to any form of mandatory surcharges (including additional products/services) that are either separated from the base price or newly added in a price increase.

Prior work on surcharges has focused on consumer inability to correctly process the price information, which can lead to underestimation of the total price when it is not displayed (e.g., Morwitz, Greenleaf, and Johnson 1998; Sheng, Bao, and

Pan 2007). Further research has focused on presentation formats of the total price and surcharges (Carlson and Weathers 2008; Sheng, Bao, and Pan 2007), the number of surcharges (Xia and Monroe 2004), and buyer and seller characteristics (e.g., Burman and Biswas 2007; Carlson and Weathers 2008). To rule out heuristic processing errors (Hamilton and Srivastava 2008), our research explicitly displays the total price. Doing so is ecologically valid, in that firms can choose or be required to show the total price of an offering (e.g., European Commission 2011).

Existing research has also examined how the characteristics of surcharges affect consumer price responses. For example, consumers prefer surcharge pricing over all-inclusive pricing when the surcharge appears reasonable in terms of economic value (Burman and Biswas 2007) or magnitude (Sheng, Bao, and Pan 2007). Moreover, the nature of a surcharge, not merely its relative cost, affects consumer preferences (Hamilton and Srivastava 2008)—which points to the need to better understand the nature of surcharges as well as the potential role of causal attributions (Xia and Monroe 2004).

### Blame Attribution

Scholars suggest that “the human cognitive system is built to see causation as governing how events unfold” (Sloman and Lagnado 2015, p. 224). A key role is assigned to causal thinking and the attribution of responsibility. Indeed, people reason about causality even without being asked to do so (Cummins 1995), and negative events are especially likely to elicit causal questions (Weiner 2000). Hence, the present research focuses on attributions assigned to a price increase (a negative event) and on how surcharge information affects consumers’ attributions of blame for the price increase.

We propose that consumers, confronted by a price increase, will engage in a process of causal attributions influenced by surcharge information. This proposition is based on prior research, indicating that consumers who encounter a negative and/or surprising event commonly engage in an attributional search to identify the cause of their negative experience (Folkes 1984; Weiner 2000). In the context of price increases, causal attributions drive assessment of blame, which involves a cognitive and affective evaluation of the reason for the harmful event (Alicke 2000). As “a negative, relatively spontaneous evaluation of a harmful action” (Alicke 2000, p. 558), blame is a primary determinant of consumers’ response behavior, which can entail anger, fairness perceptions, WOM, and behavioral intentions. Blame mediates these downstream emotional and behavioral responses to a price increase and therefore aids our understanding of the role of emotions in service encounters (Mattila and Enz 2002) as well as consumer retaliation (Weiner 1995). Indeed, the extent to which blame for rising fees is attributed to a retailer has been shown to negatively impact consumers’ spending patterns (Bower and Maxham 2012).

### Cue Utilization

The present research adopts a cue utilization perspective in which judgments are based on multiple cues and use of a specific cue is based on its diagnosticity (Slovic and Lichtenstein 1971). Cues can be categorized as being either intrinsic (derivable from physical product attributes) or extrinsic (not an integral part of the physical product; Rao and Monroe 1988). Given the intangible nature of services and the absence of intrinsic cues, consumers predominately rely on extrinsic cues such as price and brand name. The present research focuses on three characteristics of surcharge pricing with implications for causal attributions, namely, locus of causality, temporal stability, and perceived benefits.

We focus on these characteristics for several reasons. First, locus of causality and temporal stability have been proposed as central causal dimensions affecting blame attributions and subsequent behaviors (Voester, Ivens, and Leischnig 2016; Weiner 1985).<sup>1</sup> Second, the possibility of interactions among causal dimensions has been proposed: For example, Tsiros, Mittal, and Ross (2004) suggest the effect of locus of causality is more pronounced for a stable (vs. temporary) cause. Research findings in this regard, however, are mixed (Baker and Cameron 1996). Third, consumers confronted with an added surcharge evaluate the benefit they gain from the surcharge (Chakravarti et al. 2002), and this benefit may also affect its salience in the process of blame attributions (Hamilton and Srivastava 2008). And finally, from an external validity standpoint, we note that surcharges in the marketplace vary on these characteristics (see Web Appendix D). We now consider each of these surcharge characteristics in turn.

**Locus of causality.** Locus of causality indicates whether an observer perceives the cause of an action as internal or external (i.e., *who* caused the evaluated action; Weiner 1980). In a pricing context, surcharges can cue costs that are caused by the company itself (internal) or by suppliers or institutions such as the government (external). For example, in New York City, Uber customers are charged a booking fee that Uber itself imposes for its internal operations as well as a Black Car Fund fee imposed by New York City’s Taxi and Limousine Commission that goes to an external institution that provides protection and benefits to Uber drivers (Scheiber 2017).

Locus of causality is well established as a driver of causal attributions in nonprice domains (e.g., Folkes 1984; Folkes, Koletsky, and Graham 1987). People tend by default to attribute (internal) blame/responsibility to the actor, especially for negative behaviors (Ybarra 2002), and this tendency also occurs in attributing blame to companies (Cowley 2005). However, blame can be mitigated if the outcome is seen as excusable (Folkes and Kotsos 1986). Specifically, attributions are likely to be adjusted if contextual information leads to external constraints being recognized (Gilbert, Pelham, and Krull 1988).

In the domain of pricing, research suggests that consumers are sensitive to cost cueing when assessing prices

(Bolton, Warlop, and Alba 2003). Furthermore, Vaidyanathan and Aggarwal (2003) show that cost-justified price increases are judged less fair if they are due to internal (vs. external) factors. We argue that surcharge information provides consumers with an opportunity to assess locus of causality; hence, surcharge information should lead to the company receiving more blame if the surcharge is internally caused by the firm or less blame if the surcharge is externally caused by a third party.

Given this starting point, a question naturally arises: How does other surcharge information affect attributions of blame for a price increase? When evaluating price information, consumers tend to use simplifying heuristics and do not process all available informational cues correctly (Morwitz, Greenleaf, and Johnson 1998). A dominant evaluation heuristic focuses on the most important components of the price and neglects those of minor importance (Estelami 2003). Importantly, attribution research suggests that, in their evaluation process, consumers overestimate the weight of internal causes compared to external causes (Brickman, Ryan, and Wortman 1975). Similarly, a negativity bias can lead consumers to weight internal locus cues more heavily (Miyazaki, Grewal, and Goodstein 2005). These findings are consistent with the notion that locus of causality is the most diagnostic characteristic for assessing blame and that, when locus is internal, consumers tend to view this cue as sufficient for determining blame. Accordingly, we argue that, given an internal locus, blame attributions should be relatively unaffected by other causal information embedded in surcharges. In contrast, blame attributions are less likely to emerge when locus of causality is external and, once external causes are acknowledged, people tend to become more receptive to other information (Lei, Dawar, and Gurhan-Canli 2012).

Additional evidence for this line of reasoning can be drawn from the cue utilization literature. Prior research differentiates cues on the basis of the amount of evidence needed to establish or change judgment based on that cue: For example, negative traits have lower “scope” than positive traits because it takes less evidence to establish, say, dishonesty than honesty (Gidron, Koehler, and Tversky 1993). Subsequent research in a product quality setting suggests that high-scope cues are stand-alone and relatively independent of other cues. In contrast, low-scope cues are less diagnostic and their relative diagnosticity depends on other cues (Purohit and Srivastava 2001). Analogously, we argue that internal locus of causality is highly diagnostic and sufficient to drive blame attributions independent of other cues. Hence, surcharges of internal locus (such as company costs) will lead consumers to blame the firm, largely independent of other surcharge characteristics. In contrast, external locus of causality is less diagnostic of blame and therefore more dependent upon other cues. Hence, surcharges of external locus (such as external supplier costs) will not necessarily lead customers to attribute blame but will prompt them to consider other informational cues (such as other surcharge characteristics) in forming their attributions.

Stated formally, the overarching proposition that guides our research is:

**Proposition 1:** When attributing blame for a price increase, consumers will be (a) more affected by a surcharge of internal (vs. external) locus and (b) less affected by other surcharge information when locus is internal (vs. external).

To test this proposition, our research investigates how locus of causality of a surcharge affects the impact of additional surcharge information on blame attributions for a price increase. We first consider additional information in the form of two specific surcharge characteristics: temporal stability and perceived benefits. The question of focal interest is as follows: How does locus of causality of a surcharge affect the impact of temporal stability, or perceived benefit, of the surcharge? We then extend our theorizing beyond a single surcharge to consider the case of multiple surcharges. The question then is as follows: How does locus of causality of a surcharge affect the impact of information when adding another surcharge? In the sections that follow, we build upon Proposition 1 to introduce specific hypotheses regarding the impact of temporal stability and perceived benefit as a function of locus of causality.

### *Temporal Stability*

Consumers frequently encounter price components that vary in terms of their temporal stability, ranging from temporary surcharges (such as a seasonal high occupancy surcharge) to more permanent surcharges (such as a handling fee). For example, New York’s Taxi and Limousine Commission imposed a US\$4.50 surcharge for rush hour taxi trips between Manhattan and John F. Kennedy airport (Glusac 2015). More recently, a Texan energy provider revealed plans to implement a temporary fuel surcharge that would make up about one third of a typical residential customer bill (*Houston Chronicle* 2017). Surprisingly, little is known about how consumers assess temporal stability and its impact on consumer response (Greenleaf et al. 2016) or about how temporal stability interacts with other causal dimensions (e.g., Tsiros, Mittal, and Ross 2004). We propose that locus of causality and temporal stability of surcharge pricing will jointly drive blame attributions as follows.

According to Proposition 1, internal locus of causality is expected to drive blame attributions relatively unaffected by other surcharge information, such as temporal stability. That is, blame will be assigned to the firm for surcharges of internal locus, regardless of whether the surcharge is related to a temporary or permanent cause, because internal locus is highly diagnostic and a sufficient cue when attributing blame. In contrast, we expect less blame will be attributed to the firm for surcharges of external locus. Once external causes are acknowledged, people are likely to become more receptive to other information (Lei, Dawar, and Gurhan-Canli 2012), such as temporal stability.

The temporal stability of an external surcharge is expected to matter for several reasons. First, temporal instability heightens the availability of counterfactuals due to the exceptional nature and mutability of the cause (Kahneman and Miller 1986). As a result, a temporary surcharge makes salient “what

might have been" (i.e., no surcharge) and emphasizes the firm's role in the decision to pass on the temporary surcharge (Chockler and Halpern 2004). Second, temporal stability leads consumers to expect that future outcomes will not differ from current ones (e.g., Folkes 1984; Weiner 1985). As a result, a permanent surcharge makes salient costs that threaten a firm's long-term profitability (Kalapurakal, Dickson, and Urbany 1991). When assessing prices, consumers accept that firms are entitled to protect their reference profit by increasing prices (cf. the principle of dual entitlement; Kahneman, Knetsch, and Thaler 1986b). Accordingly, an external surcharge that is permanent (vs. temporary) should lead to greater reductions in blame toward the firm.

The above line of reasoning builds on Proposition 1 to predict a two-way interaction between locus of causality and temporal stability on blame attributions. Formally,

**Hypothesis 1:** An external surcharge will lower blame attributions for a price increase, more so when the surcharge is permanent (vs. temporary); blame attributions arising from an internal surcharge will be high and relatively unaffected by temporal stability.

### Surcharge Benefit

Price components can vary in terms of the benefits associated with the surcharge. Some surcharges may be viewed as inherently beneficial to consumers (e.g., fast check-in) whereas others may not (e.g., booking fees, surcharges for use of credit cards). Perceived benefit will of course vary across customers. For example, customers who are concerned about employees might perceive greater benefit when confronted with wage and health-care surcharges on restaurant bills (Weisberg 2017). We propose that locus of causality and surcharge benefit will jointly drive blame attributions as follows.

Prior research indicates that consumers compare the perceived benefit and the perceived sacrifice (i.e., price paid) when evaluating the purchase of goods or services (e.g., Dodds, Monroe, and Grewal 1991). For example, consumers are more likely to choose products when the benefit corresponds to its price (i.e., higher price for a higher benefit component; Hamilton and Srivastava 2008). In addition, consumer preferences increase (decline) if the surcharge is considered a good (bad) deal (Bertini and Wathieu 2008). Hence, consumers should respond more (less) favorably to surcharges that deliver high (low) benefits, which should lower (increase) attributions of blame toward the company for the price increase.

However, Bertini and Wathieu (2008) also demonstrate that, when other contextual factors have greater relevance, consumer attention will shift and reduce the impact of benefits. This argument accords with our earlier theorizing and a cue utilization perspective, which predicts that contextual factors receive less emphasis when locus of causality is internal. In contrast, when locus of causality is external, the impact of perceived benefits might become more prominent as consumers then consider additional cues when assessing blame.

Accordingly, the impact of surcharge benefits is likely to diminish for surcharges of internal (vs. external) locus.

The above line of reasoning builds on Proposition 1 to predict a two-way interaction between locus of causality and surcharge benefit on blame attributions. Formally,

**Hypothesis 2:** An external surcharge will lower blame attributions for a price increase, more so when the surcharge benefits are high (vs. low); blame attributions arising from an internal surcharge will be high and relatively unaffected by surcharge benefits.

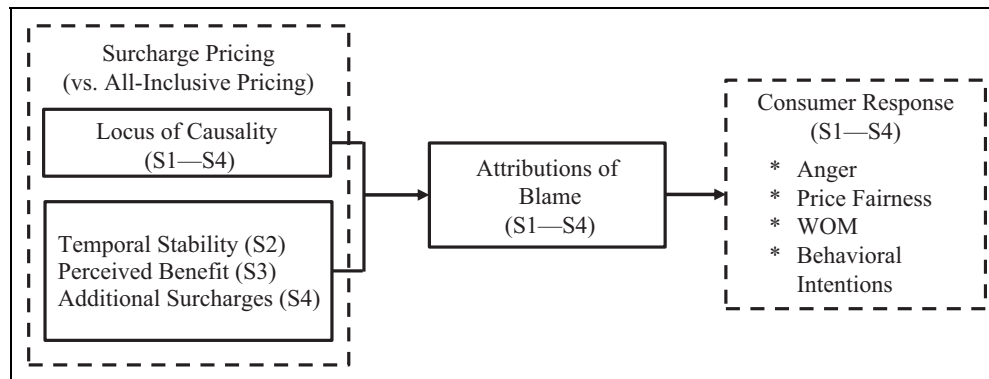
Together, Hypotheses 1 and 2 provide a test of our fundamental research proposition (Proposition 1) that blame attributions are (a) more affected by internal (vs. external) locus and (b) less affected by other surcharge information (temporal stability and surcharge benefit, respectively) when locus is internal (vs. external). While Hypotheses 1 and 2 test our theorizing within the context of a single surcharge, we will later investigate Proposition 1 via the case of multiple surcharges—not only to assess robustness (given the occurrence of multiple surcharges in the marketplace) but to extend our theorizing to additional surcharge information.

### Empirical Overview

Figure 2 provides an organizing framework for this research. Study 1 provides an initial demonstration of consumer response to a price increase accompanied by surcharge information compared to various forms of all-inclusive pricing. Study 2 tests Hypothesis 1 by examining the impact of a surcharge that varies in locus of causality and temporal stability. Study 3 tests Hypothesis 2 by examining the impact of a surcharge that varies in locus of causality and benefit. Finally, Study 4 extends our theorizing to the investigation of single and multiple surcharges that communicate internal and/or external loci of causality (testing Hypotheses 3 and 4 to be introduced later). Together, these studies demonstrate how surcharges drive blame attributions for a price increase, with downstream consequences for both consumers and firms.

### Study 1: Surcharge Versus All-Inclusive Pricing

The objectives of the present study are (i) to provide an initial test of the impact of surcharge pricing on blame attributions and (ii) to examine whether the impact of surcharge pricing is unique above and beyond the provision of pricing information itself. We do so by comparing surcharge pricing against all-inclusive pricing that communicates surcharge information in various ways. We argue that surcharges are a readily available tool for communicating price information to customers in a highly salient manner at the time of price evaluation. Hence, we expect that a surcharge will draw attention to and greater scrutiny of surcharge information, more so than will the provision of surcharge information in other ways. Specifically, we



**Figure 2.** Organizing framework.

predict that blame toward the company will decline with an external surcharge due to a greater emphasis on surcharge information compared to various forms of all-inclusive pricing.

## Method

The experiment was a four-group between-subjects design. A total of 153 adult North Americans from Amazon’s Mechanical Turk (hereafter MTurk) online panel completed the study in exchange for financial compensation. Participants were asked to read the following:

Imagine booking a ticket for a return flight from Chicago to Miami. You remember paying a total of US\$300 the last time you booked (same airline, similar timing, etc.). While booking you receive the following price offer.

Participants then saw a new price offer of US\$345. This offer was manipulated to show one of the following: (i) surcharge pricing that partitioned out a surcharge of external locus, namely, a US\$45 airport fee (external surcharge); (ii) an all-inclusive price that listed only the total price (All-inclusive [AI]); (iii) an all-inclusive price with an explicit notation that mentioned a “US\$45 airport fee” but did not partition it out (explicit); or (iv) an all-inclusive price with a simple notation that mentioned an “airport fee” but did not partition it out (simple). The latter control groups allow us to compare the impact of partitioning out a surcharge, beyond merely providing surcharge information at various levels of specificity (see Web Appendix A for stimuli).

Afterward, participants provided a response to the open-ended question: “What thoughts and feelings run through your mind as you view this offer?” Participants then assessed blame for the price increase, as well as anger, price fairness, WOM, and behavioral intentions (see Appendix Table A1 for the exact wording of measures and for scale reliabilities). Participants further responded to a manipulation check for locus of causality by rating the airport fee on a 7-point scale, with end points “an internal fee (charged by the airline)/an external fee (charged by the airport).” Participants also indicated their recall of the previous price and current total price. Twelve

participants who could not recall this information correctly were excluded from analyses; results do not change if these participants are included. For exploratory purposes, participants also reported their views on all-inclusive and surcharge pricing (see Web Appendix B2 for details) and responded to background questions (e.g., demographics).

## Results

For this and all subsequent studies, Web Appendix B1 contains an overview of means, standard deviations, and cell sizes, and Web Appendix B3 presents an assessment of discriminant validity of dependent variables (which is supported across all studies).

### Manipulation Check

As expected, an airport fee was rated as relatively more external rather than internal ( $M = 4.43$  vs. midpoint,  $t = 6.39$ ,  $p < .01$ ). This assessment did not vary by pricing condition,  $F(3, 137) = 1.06$ ,  $p > .10$ .

### Blame

Analysis of variance (ANOVA) revealed a main effect of pricing condition on blame,  $F(3, 137) = 4.58$ ,  $p < .05$ . In follow-up planned contrasts, (i) as expected, an external surcharge reduced blame versus an all-inclusive price,  $M_{\text{external}} = 3.75$  versus  $M_{\text{AI}} = 4.89$ ,  $F(1, 137) = 8.95$ ,  $p < .01$ , and (ii) blame did not differ for all-inclusive pricing as a function of the notation of surcharge information ( $M_{\text{explicit}} = 4.95$ ;  $M_{\text{simple}} = 4.95$ ;  $F_s < 1$ ). That is, the external surcharge reduced blame toward the company compared to various forms of all-inclusive pricing.

### Mediation

The downstream effects of blame on anger, price fairness, WOM, and behavioral intentions were assessed using a bootstrapping approach (e.g., Zhao, Lynch, and Chen 2010). As expected, the indirect effect for the focal contrast (external surcharge vs. all-inclusive pricing conditions) was supported for all outcome variables (anger:  $\beta = .63$ , 95% confidence

interval [CI] [0.25, 1.11]; price fairness:  $\beta = -.39$ , 95% CI [-0.70, -0.17]; WOM:  $\beta = .81$ , 95% CI [0.34, 1.37]; and behavioral intentions:  $\beta = -.40$ , 95% CI [-0.77, -0.15]). That is, an external surcharge affects anger, fairness perceptions, WOM, and behavioral intentions via blame attributions.

### Open-Ended Responses

To shed further light on consumer response, the open-ended responses of participants were coded by two judges blind to the hypotheses and pricing condition. We used the proportional reduction in loss (PRL) approach (Rust and Cooil 1994) to measure intercoder reliability, and the PRL (.88) meets the critical cutoff value of .70. Chi-squared analysis reveals that the pricing condition drove spontaneous mentions of fees,  $\chi^2(3) = 24.52$ ,  $p < .01$ , in that the external surcharge led more participants to mention fees (external: 63%) than did all-inclusive pricing conditions (explicit: 52%; simple: 23%; all-inclusive: 5%;  $p$ 's  $< .05$ ). Of particular interest, is the focal contrast of the external surcharge condition against the two pricing conditions that include fee notations without partitioning (i.e., external vs. simple and explicit conditions). A moderated mediation analysis was conducted with this contrast as the independent variable, coding of fees (mentioned vs. not) as the moderator, and blame as the mediator. When fees were mentioned, the indirect effect for the focal contrast was significant for all outcome variables (anger:  $\beta = .53$ , 95% CI [0.12, 1.15]; price fairness:  $\beta = -.27$ , 95% CI [-0.72, -0.03]; WOM:  $\beta = .98$ , 95% CI [0.29, 1.75]; and behavioral intentions:  $\beta = -.37$ , 95% CI [-0.97, -0.05]). When fees were not mentioned, indirect effects were not supported (all CI's encompass 0). This analysis supports our theorizing: surcharge pricing increased attention to fee information and, when fees were salient, the external locus of the surcharge shielded the firm from blame.

### Discussion

Together, these results suggest that (i) consumers attribute less blame to the firm with an external surcharge, (ii) consumer attributions of blame are less affected when external surcharge information is communicated in other ways (i.e., via notation), and (iii) blame perceptions also influence downstream affective and behavioral responses.

Subsequent studies will further examine surcharge pricing, given Study 1's evidence that it is a particularly impactful way for firms to convey surcharge information and affect blame attributions for a price increase. We now turn our investigation to additional factors—specifically, other characteristics of the focal surcharge—that we theorize will alter blame attributions arising from locus of causality.

### Study 2: Locus of Causality and Temporal Stability

The objective of Study 2 is to examine the impact of locus of causality and temporal stability on consumer blame attributions

for a price increase. Consistent with Hypothesis 1, we predict an interaction such that (i) an external surcharge will lower blame attributions for a price increase, more so when the surcharge is permanent (vs. temporary), and (ii) blame attributions arising from an internal surcharge will be high and relatively unaffected by temporal stability.

### Method

The experiment was a 2 (locus of causality: internal/external)  $\times$  2 (temporal stability: temporary/permanent) between-subjects design. Additionally, two control groups with an all-inclusive price, one with and one without a simple fee notation, were included. A total of 272 North Americans recruited from MTurk completed the study in exchange for financial compensation. Five participants were eliminated for failure of an instructional manipulation check ("please select four"). Participants were asked to read the following:

Imagine that you are traveling by train and you need a rental car at your travel destination for 1 week. You get to the rental car website you usually use for car rentals. You paid a total of \$225 (i.e., same pick-up station, same car category, same car configuration) last time. While in the process of booking the car, you discover that the price has gone up.

Participants then received a booking quotation with a breakdown of the total price into base price (US\$225) and one additional surcharge (US\$25.00) with a short description of the surcharge. Temporal stability and locus of causality were manipulated via the description of the surcharge as follows (shown in square brackets, respectively):

Concession fee: [temporary/permanent] fee charged by [the rental car company/ the train station] for station pick-up and drop-off.

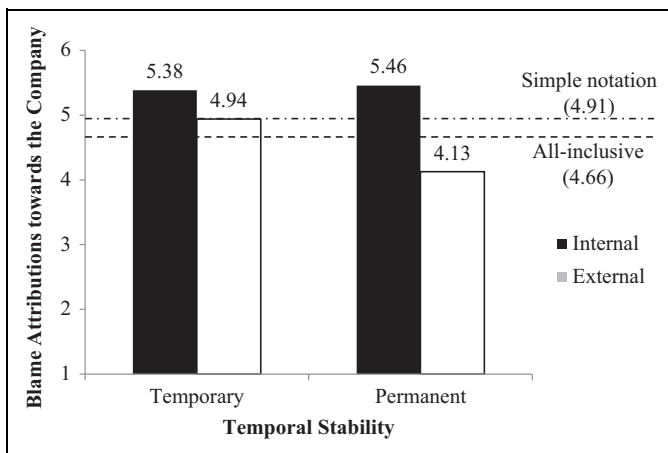
In the all-inclusive pricing conditions, participants were presented with the total price offer. (In the simple notation condition, participants were also told that the total price "includes a fee for station pickup and drop-off".) See Web Appendix A for stimuli. After viewing the booking quotation, participants responded to blame, anger, price fairness, WOM, and behavioral intentions (see Appendix Table A1). As manipulation checks, participants rated locus of causality, temporal stability, and benefit (see Web Appendix C for item wording and reliability).

### Results

#### Manipulation Checks

ANOVA of perceived locus revealed a main effect of locus of causality,  $M_{Int} = 3.51$  versus  $M_{Ext} = 4.28$ ,  $F(1, 173) = 9.67$ ,  $p < .05$ ; neither temporal stability nor its interaction with locus was significant ( $ps > .05$ ). ANOVA of perceived temporal stability revealed a main effect of temporal stability,  $M_T = 3.56$  versus  $M_P = 4.64$ ,  $F(1, 173) = 19.46$ ,  $p < .01$ ; neither locus of





**Figure 3.** Blame as a function of locus of causality and temporal stability (Study 2).

causality or the interaction was significant ( $ps > .05$ ). We also note that (i) controlling for perceived benefit in the analyses yields a similar pattern of results and (ii) the all-inclusive price conditions with and without simple notation did not differ on perceived blame,  $t(88) = 0.78$ ,  $p > .05$ . These results support the intended manipulations.

### Blame

ANOVA of blame revealed a main effect of locus,  $F(1, 173) = 15.53$ ,  $p < .01$ , qualified by its interaction with temporal stability,  $F(1, 173) = 3.91$ ,  $p < .05$ ; the main effect of temporal stability was *ns* ( $p > .05$ ). For an internal surcharge, temporal stability had no effect on blame,  $M_{Int, T} = 5.38$  versus  $M_{Int, P} = 5.45$ ,  $F(1, 85) = 0.07$ ,  $p > .05$ . For an external surcharge, participants attributed less blame toward the company when the surcharge was permanent versus temporary,  $M_{Ext, T} = 4.94$  versus  $M_{Ext, P} = 4.13$ ,  $F(1, 88) = 5.23$ ,  $p < .05$ . This pattern of means, illustrated in Figure 3, supports Hypothesis 2.

### Mediation

We conducted a moderated mediation analysis to assess whether blame mediated the interaction of surcharge characteristics on downstream anger, price fairness, WOM, and behavioral intentions. Bootstrap analyses provide complete support for our theorizing in Proposition 1 and Hypothesis 1: (i) the effect of temporal stability is mediated by blame when the surcharge has external but not internal locus and (ii) the effect of locus of causality is mediated by blame when the surcharge is permanent but not temporary. The moderated mediation analyses for subsequent studies also yield supportive results, which are omitted from the text for brevity (for details, see Web Appendix B4).

Furthermore, planned contrasts were conducted to compare the all-inclusive control groups against each surcharge pricing condition. Compared to all-inclusive pricing, (i) an internal

surcharge increased blame regardless of its temporal stability,  $M_{CGs} = 4.80$  versus  $M_{Int, T} = 5.38$ ,  $t(129) = 2.13$ ,  $p < .05$ ;  $M_{CGs}$  versus  $M_{Int, P} = 5.46$ ,  $t(134) = 2.54$ ,  $p < .05$ , and (ii) an external surcharge reduced blame when permanent,  $M_{CGs}$  versus  $M_{Ext, P} = 4.13$ ,  $t(133) = -2.21$ ,  $p < .05$ , but not when temporary,  $M_{CGs}$  versus  $M_{Ext, T} = 4.94$ ,  $t(133) = 0.53$ ,  $p > .10$ .

## Discussion

Study 2 provides evidence that temporal stability and locus of causality of a surcharge jointly affect attributions of blame for a price increase. For an internal surcharge, consumers blame the firm for a price increase regardless of the temporal stability of the surcharge; for an external surcharge, consumers attribute less blame to the firm when the surcharge is permanent (vs. temporary). These findings support Hypothesis 1 and Proposition 1.

## Study 3: Locus of Causality and Surcharge Benefit

The objective of Study 3 is to examine the impact of locus of causality and surcharge benefit on consumer blame attributions for a price increase. Consistent with Hypothesis 2, we predict an interaction such that (i) an external surcharge will lower blame attributions for a price increase, more so when the surcharge benefit is high (vs. low), and (ii) blame attributions arising from an internal surcharge will be high and relatively unaffected by surcharge benefit.

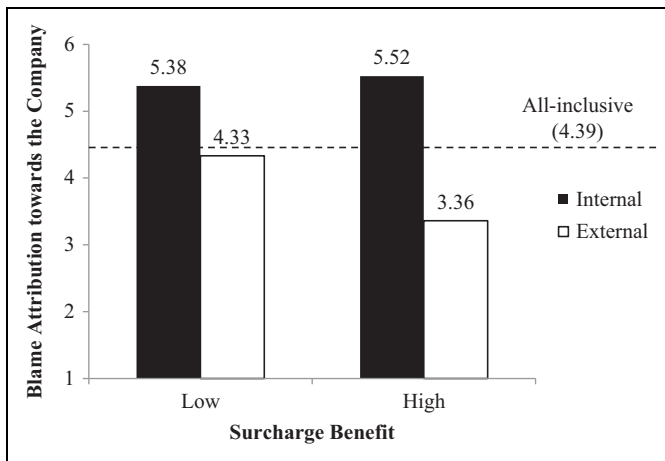
## Method

The experiment used a 2 (locus of causality: internal/external)  $\times$  2 (surcharge benefit: low/high) between-subjects design. In addition, a control group with an all-inclusive price was included. A total of 182 U.S. participants from Amazon's MTurk completed the study in exchange for monetary compensation. Participants were asked to read the following:

Imagine that you are about to go on a trip between two major cities by plane. Assume that you paid approximately \$250 last time you took this trip. You go to the website for the airline. (The name of the airline is disguised and it is best not to guess who they are.) The price of the trip is shown below.

Participants in the surcharge pricing conditions received a booking quotation with a breakdown of the total price into a base price (US\$250) and one additional surcharge (US\$15). Locus of causality and surcharge benefit were manipulated via the surcharge description as follows (shown in square brackets):

Processing Fee: Fee charged by [the airline/ the airport] to improve passenger processing. Wait times for passenger processing declined [5%/50%] over the past year as a result of improvements by [the airline/the airport].



**Figure 4.** Blame as a function of locus of causality and surcharge benefit (Study 3).

Participants in the all-inclusive control group saw the total price of US\$265. Participants then responded to measures of blame, anger, price fairness, WOM, and behavioral intentions (see Appendix Table A1). Participants also rated manipulation checks (see Web Appendix C).

## Results

### Manipulation Checks

ANOVA of perceived locus revealed a main effect of locus of causality,  $M_{\text{Ext}} = 3.10$  versus  $M_{\text{Int}} = 1.92$ ,  $F(1, 140) = 44.78$ ;  $p < .01$ ; benefit and its interaction with locus of causality were *ns* ( $ps > .05$ ). ANOVA of perceived benefit revealed a main effect of the benefit manipulation,  $M_{\text{HB}} = 2.58$  versus  $M_{\text{LB}} = 2.04$ ,  $F(1, 140) = 10.39$ ;  $p < .01$ ; locus of causality and its interaction with benefit were *ns* ( $ps > .05$ ). We also note that controlling for perceived temporal stability in the analyses yields a similar pattern of results. These results support the intended manipulations.

### Blame

ANOVA of blame revealed a main effect of locus,  $F(1, 139) = 42.58$ ,  $p < .01$ , qualified by the expected interaction with surcharge benefit,  $F(1, 139) = 5.55$ ,  $p < .05$ ; the main effect of benefit was *ns* ( $F < 1$ ). For an internal surcharge, surcharge benefit had no effect on blame ( $M_{\text{Int, LB}} = 5.38$  vs.  $M_{\text{Int, HB}} = 5.52$ ,  $F < 1$ ). For an external surcharge, participants attributed less blame toward the company when the surcharge provided a high versus low benefit,  $M_{\text{Ext, LB}} = 4.33$  versus  $M_{\text{Ext, HB}} = 3.36$ ,  $F(1, 70) = 4.16$ ,  $p < .05$ . This pattern of means, shown in Figure 4, supports Hypothesis 2. As in previous studies, mediation via blame is supported (see Web Appendix B4).

In addition, planned contrasts were conducted to compare the all-inclusive price condition against each surcharge pricing condition. Compared to all-inclusive pricing: (i) an

internal surcharge increased blame, regardless of surcharge benefit,  $M_{\text{AI}} = 4.39$  versus  $M_{\text{Int, HB}} = 5.52$ ,  $t(71) = 3.41$ ,  $p < .01$ , and  $M_{\text{AI}}$  versus  $M_{\text{Int, LB}} = 5.38$ ,  $t(72) = 3.21$ ,  $p < .01$ , and (ii) an external surcharge reduced blame when surcharge benefit was high,  $M_{\text{AI}}$  versus  $M_{\text{Ext, HB}} = 3.36$ ,  $t(64.24) = -2.65$ ,  $p < .01$ , but not low,  $M_{\text{Ext, LB}} = 4.33$ ,  $t(74) = -0.14$ ,  $p = .89$ .

## Discussion

Study 3 provides evidence that surcharge benefit and locus of causality jointly determine attributions of blame for a price increase and, in turn, downstream consumer responses. For an internal surcharge, consumers blame the firm for a price increase regardless of the surcharge benefit; for an external surcharge, consumers attribute less blame to the firm when the surcharge benefit is high (vs. low). These findings support Hypothesis 2 and Proposition 1.

More generally, Studies 1 to 3 provide support for our theorizing regarding locus of causality and other surcharge information on consumer blame attributions for a price increase. In accordance with Proposition 1, we find that consumer blame attributions are (a) more affected by a surcharge of internal (vs. external) locus and (b) less affected by other surcharge information (temporal stability in Study 2, surcharge benefit in Study 3) when locus is internal (vs. external). While Hypotheses 1 and 2 test our theorizing within the context of a single surcharge, Proposition 1 can also be investigated via the case of multiple surcharges that communicate information about causality—the focus of our final study.

### Study 4: The Prominence of Internal Surcharges Among Mixed Surcharges

Consumers frequently encounter multiple surcharges, especially in an online environment (Trejos 2012). In the airline industry, multiple surcharges of internal and external locus of causality (e.g., a processing fee vs. an airport fee) are simultaneously added to the base price (McCartney 2012). Likewise, customers' mobile phone bills regularly contain multiple surcharges, either originating from the mobile phone provider itself (e.g., administrative charge) or from an external institution (e.g., state 911 fee; Cox 2016). This practice begs the question: How do consumers respond to multiple surcharges that vary in locus of causality and magnitude?

### Mixed Surcharges

We are particularly interested in “mixed” surcharges that vary in locus of causality because this case addresses the interesting question of how consumers assess blame when an additional surcharge cues contrasting locus information. Proposition 1 proposes that consumers are more affected by a surcharge of internal (vs. external) locus and less affected by other surcharge information when locus is internal (vs. external). Whereas Hypotheses 1 and 2 examine temporal stability and surcharge

benefit as forms of surcharge information, the present case considers an additional surcharge of contrasting locus. Our reasoning flows from the rationale for Proposition 1 as follows. First, as we have noted, consumers tend to overweight internal (vs. external) causes (Brickman, Ryan, and Wortman 1975), and a negativity bias might lead consumers to overweight internal locus cues (Miyazaki, Grewal, and Goodstein 2005). Second, we have argued that internal locus is a high-scope cue (Gidron, Koehler, and Tversky 1993) and more diagnostic cues are relatively independent of other cues (Purohit and Srivastava 2001). Hence, consumer blame attributions are expected to be high due to an internal surcharge—and relatively unaffected by an additional surcharge of contrasting locus (i.e., external). In the case of an external surcharge with an added surcharge of contrasting locus, a similar logic holds but leads to the opposite prediction. That is, consumer blame attributions are expected to be low due to the external surcharge—but blame is expected to increase with the addition of a surcharge of contrasting (i.e., internal) locus.

Together, this line of reasoning leads to the following prediction:

**Hypothesis 3:** When attributing blame for a price increase, consumers will be less affected by the addition of a surcharge of contrasting locus to an internal (vs. external) surcharge.

If supported, Hypothesis 3 predicts that consumer blame attributions (i) will increase when an internal surcharge is added to an external surcharge but (ii) will be relatively unaffected when an external surcharge is added to an internal surcharge. This prediction is also of considerable pragmatic interest, suggesting that consumers' blame attributions arising from internal surcharges are not readily buffered by external surcharges.

### *Surcharge Magnitude*

The context of multiple surcharges also provides an opportunity to examine the impact of varying the magnitude of internal and external surcharges on blame attributions. Proposition 1 proposes that consumer blame attributions are more affected by surcharges of internal (vs. external) locus because consumers overweight internal causes (Brickman, Ryan, and Wortman 1975) and because a negativity bias leads consumers to place more weight on internal locus cues (Miyazaki, Grewal, and Goodstein 2005). If so, then it follows that consumers should be more sensitive to the magnitude of internal versus external surcharges when attributing blame. For example, consumers will tend to assign more blame to the firm as the magnitude of an internal surcharge increases, when compared to the reduction in blame as the magnitude of an external surcharge increases. This prediction is also consistent with the notion that “bad is stronger than good” (Baumeister et al. 2001, p. 323), where internal surcharges are “bad” and undermine transaction utility (cf. Thaler 1985) more so than do external surcharges. Formally,

**Hypothesis 4:** When attributing blame for a price increase, consumers will be more affected by surcharge magnitude for internal (vs. external) surcharges.

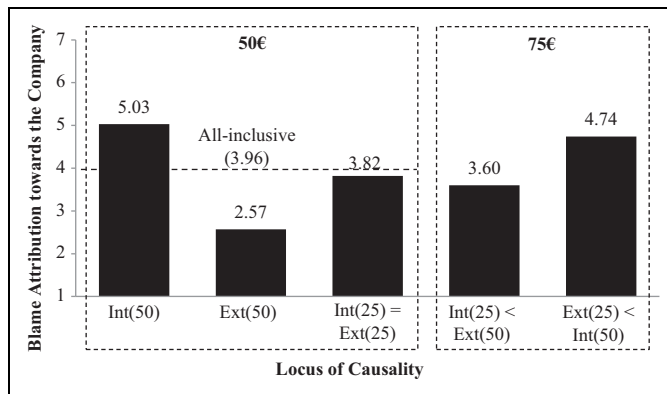
If supported, then surcharge magnitude represents a characteristic of surcharges (in contrast to temporal stability and surcharge benefit) that has more impact when surcharge locus is internal than external. Inasmuch as surcharge magnitude can be said to reflect the intensity of locus of causality information (and, in the present context, the magnitude or pain of a price increase), then Hypothesis 4 is nonetheless consistent with Proposition 1 because it provides further evidence for the prominence of internal (vs. external) surcharges in blame attributions.

### **Method**

The experiment was a six-group between-subjects design. A total of 209 European participants, recruited online and via e-mail, voluntarily completed the study for a chance to win one of various gift vouchers in a lottery. Participants were asked to read the following:

Imagine that a very close friend of yours moved to Chicago last year. You are planning on visiting him this year. You already checked several price comparison websites for the cheapest flight tickets last week. While searching, you found an offer by a large German airline. The price listed for a nonstop return flight was 500€. Today, you are about to book this flight and have received the following price offer.

Participants then received a booking quotation containing the total price as well as the break down into the base price (500€) and the additional surcharge. A short description of the surcharge was given below the quotation. We manipulated locus of causality via surcharge descriptions: an internal surcharge (“company-imposed fee to cover administrative expenses in processing the booking”) and an external surcharge (“state-imposed fee to compensate local residents for noise pollution”). The number of surcharges, their magnitude, and their locus of causality were manipulated as follows: Four conditions described a price increase of 50€. The first two conditions presented a single surcharge of 50€, either purely internal (Int) or purely external (Ext) locus of causality. For comparison purposes, a third condition divided the 50€ equally across an internal and external surcharge (Int = Ext), and a fourth condition contained an all-inclusive price (50€ AI). Two additional conditions examined a price increase of 75€, divided into either a 50€ internal surcharge accompanied by a 25€ external surcharge (Ext < Int) or vice versa (Int < Ext; i.e., either an internal or an external surcharge dominated). When multiple surcharges were presented, order of presentation was counterbalanced. (Counterbalancing had no effect and we collapsed across this factor in subsequent analyses.) Participants were then asked to assess blame for the price increase as well as anger, price fairness, WOM, and behavioral intentions (Appendix Table A1).



**Figure 5.** Blame as a function of multiple loci of causality (Study 4).

Participants also responded to manipulation checks (Web Appendix C).

## Results

### Manipulation Checks

As expected, perceived locus of causality differed for the two conditions presenting a single surcharge of purely internal or external locus of causality,  $M_{Int} = 5.03$  versus  $M_{Ext} = 2.57$ ,  $F(1, 63) = 51.11$ ,  $p < .01$ . We also note that controlling for perceived temporal stability and perceived benefit in analyses yields a similar pattern of results.

### Blame

ANOVA revealed a main effect of pricing condition on blame,  $F(5, 203) = 11.46$ ,  $p < .01$ ; see Figure 5 for the pattern of the means. A series of planned contrasts were conducted to understand the nature of this omnibus effect.

First, we assessed the impact that adding a surcharge of contrasting locus has on blame attributions. Adding a smaller external surcharge to an internal surcharge had no effect,  $M_{Int} = 5.03$  versus  $M_{Ext < Int} = 4.74$ ,  $t(168) = 0.84$ ,  $p = .41$ . However, adding a smaller internal surcharge to an external surcharge increased blame,  $M_{Ext} = 2.57$  versus  $M_{Int < Ext} = 3.60$ ,  $t(168) = 2.75$ ,  $p < .01$ . That is, consumer blame attributions were less affected by the addition of a surcharge of contrasting locus to an internal (vs. external) surcharge, which is consistent with Hypothesis 3.

Second, we assessed the impact of varying the magnitude of the internal and external locus surcharges when there were multiple surcharges (i.e., comparing  $Int = Ext$ ,  $Int < Ext$ , and  $Ext < Int$  conditions). When the internal surcharge was 50€, consumers blamed the company more than in the two conditions in which an internal surcharge of 25€ was charged,  $M_{Ext < Int} = 4.74$  versus  $M_{Int < Ext} = 3.60$ ,  $t(168) = 3.11$ ,  $p < .01$ , versus  $M_{Int = Ext} = 3.82$ ;  $t(168) = 2.57$ ,  $p < .01$ . In contrast, blame did not differ when the external surcharge was 50€ versus 25€,  $M_{Int = Ext} = 3.82$  versus  $M_{Int < Ext} = 3.60$ ,  $t(168) = 0.61$ ,  $p = .54$ . Consistent with Hypothesis 4, consumer blame

attributions are more affected by the magnitude of internal (vs. external) surcharges.

Finally, for completeness, we note that (i) as expected, a purely internal locus surcharge led to higher blame than a purely external locus surcharge,  $M_{Int} = 5.03$  versus  $M_{Ext} = 2.57$ ,  $t(136) = 6.93$ ,  $p < .01$ , and (ii) blame did not differ for surcharges that split the price increase equally across internal and external locus surcharges versus all-inclusive pricing,  $M_{Int} = M_{Ext} = 3.82$  versus  $M_{AI} = 3.96$ ,  $t(136) = 0.42$ ,  $p = .68$ . This result suggests that spontaneous attributions for an all-inclusive price increase assume a mix of internal and external loci of causality. As in previous studies, mediation via blame is supported (see Web Appendix B4).

## Discussion

Study 4 supports Hypotheses 3 and 4 and provides evidence that (i) consumer blame attributions are less affected by the addition of a surcharge of contrasting locus to an internal (vs. external) surcharge and (ii) consumer blame attributions are more affected by increasing the magnitude of an internal (vs. external) surcharge. Together, these findings indicate that blame is not merely proportional to the sum of internal and external surcharges; rather blame is more sensitive to internal (vs. external) surcharges and, moreover, external surcharges do not readily shift blame away from internal surcharges.

## General Discussion

Dealing with price increases—which are frequently unavoidable and/or beyond a company's control—remains a significant challenge for firms. Surcharge pricing is a potential strategy that service companies can use to mitigate consumers' negative reactions, inasmuch as the surcharge may be useful to communicate reasons for a price increase to consumers. Extant research on the practice of surcharging has focused on consumers' (in)ability to correctly process price information. Instead, our work investigates how causal information embedded in surcharges affects consumers' attributions of blame and, in turn, emotional and behavioral outcomes (anger, price fairness, WOM, and behavioral intentions).

Across four studies, our research demonstrates that an internal (vs. external) surcharge increases blame attributions when a firm increases prices. Moreover, internal (vs. external) locus of causality also minimizes the influence on blame of other surcharge information. Hence, an external surcharge reduces blame perceptions, more so when the surcharge is permanent (vs. temporary) or high (vs. low) benefit, whereas an internal surcharge increases blame perceptions regardless of its temporal stability or benefit. Likewise, consumers are more affected by the addition of a surcharge of contrasting locus to an external (vs. internal) surcharge. (Blame increases when an internal surcharge is added to an external surcharge but is unaffected when an external surcharge is added to an internal surcharge.) In contrast, however, internal (vs. external) locus of causality increases the influence

of surcharge magnitude: Consumers attribute more blame to the firm as the magnitude of an internal surcharge increases, when compared to the reduction in blame as the magnitude of an external surcharge increases. Together, these findings demonstrate how surcharges that accompany price increases drive blame attributions in systematic ways as a function of theoretically distinct and managerially relevant surcharge characteristics.

### Limitations

Before turning to the managerial and theoretical contributions of our work, several limitations to our research must be acknowledged. First, our research relies on scenario-based methods and self-report measures. Scenario methods have ample precedent in the literature and allow us to gain insight into the underlying psychological process. Nonetheless, future research examining real pricing contexts and actual purchasing behavior would help assess the robustness of these findings. Second, our studies typically manipulated locus, temporal stability, and perceived benefit for a given surcharge in order to strengthen internal validity. However, we contend that surcharges vary inherently on these characteristics and expect our findings would generalize to ecologically valid surcharges that vary on these characteristics in the marketplace. To demonstrate generalizability across varying surcharges, we replicated our findings with ecologically valid operationalizations of surcharge locus, benefit, and temporal stability via different surcharges (see Web Appendix D for details). We also provide some evidence for generalizability across culture (United States and Europe) in our empirical work. Third, our research prompts attributions by asking consumers to assess blame. We focused on understanding how attributions of blame are driven by surcharge pricing and did not investigate the conditions under which such attributions might occur spontaneously (but see Study 1). Prior research suggests that such attributions are more likely to occur when consumers are faced with a negative event (Folkes 1984; Weiner 2000), which is consistent with our context of communicating price increases. Future research is encouraged to examine the impact of causal information in surcharge pricing in other contexts, such as when communicating a price decrease, or in the absence of price change or total price information.

### Theoretical Contributions and Future Research

Our research contributes theoretically by drawing upon attribution theory to understand its role in consumer response to surcharge pricing (cf. Greenleaf et al. 2016; Xia, Monroe, and Cox 2004). We expand the literature on surcharge pricing to incorporate additional theoretically and pragmatically relevant surcharge characteristics (e.g., temporal stability, perceived benefit) as well as the case of both individual and multiple surcharges (cf. Voester, Ivens, and Leischnig 2016). Doing

so sheds new light on consumer response to surcharge pricing in several ways.

First, prior research claims that surcharge pricing can enhance the perceived value of an offer and lead to more favorable consumer responses than all-inclusive pricing. For example, consumers prefer surcharge pricing over all-inclusive pricing when the surcharge is deemed reasonable in economic value (Burman and Biswas 2007) or magnitude (Sheng, Bao, and Pan 2007). However, surcharge pricing can also lead to less favorable responses than all-inclusive pricing (Carlson and Weathers 2008; Morwitz, Greenleaf, and Johnson 1998), and we build on these conflicting findings to identify how consumer blame attributions play a key role in determining whether consumers respond favorably or not to surcharge pricing. In comparison to all-inclusive pricing, we find that (i) surcharge pricing leads to more blame (and less favorable downstream consumer response) when surcharges are internal in locus, regardless of their temporal stability or perceived benefit, and (ii) surcharge pricing leads to less blame (and more favorable consumer response) when surcharges are external in locus—but only if surcharges are high benefit and permanent. Hence, our research identifies theoretically and managerially relevant surcharge characteristics that systematically predict consumer response to surcharge pricing compared to all-inclusive pricing.

Second, prior research also claims that consumers respond more favorably to surcharge pricing as the number of surcharges increase. Supporting evidence, however, is limited: For example, a large number of price components (9 vs. 2) had positive effects (when the total price was presented; Carlson and Weathers 2008), whereas a single additional surcharge (2 vs. 1) did not (Völckner, Rühle, and Spann 2012; Xia and Monroe 2004). We build upon these conflicting findings by identifying how surcharge characteristics alter consumer response; moreover, we also show how the impact of an additional surcharge depends upon the presence of another surcharge. For example, an external surcharge reduces blame attributions—but has little effect if added to an existing internal surcharge. Hence, our research points to a new and important avenue for future research that takes into account the interrelationships across surcharges when considering their impact.

Third, our research contributes by showing how surcharge characteristics operate *in concert* to affect blame attributions and, in turn, downstream consumer response. Consider, for example, surcharge benefit perceptions. Prior research claims that consumers prefer surcharge pricing when the surcharge delivers a benefit commensurate with its price (e.g., Bertini and Wathieu 2008). Our research extends this work to show how the positive effect of surcharge benefit is undermined when surcharges are internal (vs. external). As another example, consider surcharge magnitude. Prior research claims that consumers prefer surcharge pricing over all-inclusive pricing when the surcharge magnitude is perceived as acceptable (relative to the base price; Sheng, Bao, and Pan 2007). We

extend this finding to show how the impact of surcharge magnitude depends upon locus of causality, with consumers more sensitive to the magnitude of internal (vs. external) surcharges. Likewise, the impact of temporal stability also depends upon locus of causality of the surcharge (to our knowledge, past research has not examined this factor in surcharge pricing).

More generally, our research proposes a cue utilization framework to understand how surcharge characteristics operate in concert and affect consumer response. We theorize that, because of the greater diagnosticity of internal (vs. external) locus, consumers are less affected by other surcharge information (such as temporal stability, surcharge benefit, and an additional surcharge) when attributing blame for a price increase. Guided by this framework, future research could extend the investigation to consider additional characteristics of surcharges, the number of surcharges, the presentation of surcharge information, and so on. For example, surcharge pricing could cue investment costs incurred by the firm and corresponding commitment to customers/the environment: Are blame attributions sensitive to high- versus low-cost cues embedded in surcharges?

Although the focus of our investigation has been on surcharge pricing, our research also builds on prior work investigating cognitive and motivational determinants of consumer response to price increases (e.g., Bolton, Warlop, and Alba 2003; Kahneman, Knetsch, and Thaler 1986a, 1986b). Of closest relevance to the present research, Vaidyanathan and Aggarwal (2003) claim that cost-justified price increases are judged less fair when caused by internal versus external factors. We extend this finding by (i) showing how locus of causality differences are especially likely to emerge in a surcharge pricing context (Study 1), (ii) examining the interaction of locus of causality with other factors that drive blame attributions (Studies 2 to 4), and (iii) positioning blame attributions within a nomological network that incorporates both antecedents (e.g., surcharge characteristics) and consequences (e.g., price fairness). Our research has emphasized the antecedent role of surcharge information, and future research would be useful to better understand the role of consumer and firm factors. For example, we find that—in the absence of surcharge pricing—firms do not entirely attribute price increases to internal locus of causality (in contrast to speculation by Xia, Monroe, and Cox 2004). Does this goodwill benefit depend upon the reputation of the firm (cf. Campbell 1999) or other aspects of consumer-firm relationships?

### *Managerial Implications*

Understanding how surcharges affect consumer blame responses addresses several key questions regarding surcharge pricing: When should service companies use surcharge pricing to accompany a price increase? What types of surcharges help (vs. hurt) companies? and What are the consumer consequences of surcharge pricing? Our research addresses these managerially important questions in several ways.

*Surcharge pricing versus all-inclusive pricing.* We compare surcharge pricing to all-inclusive pricing to determine when surcharge pricing is beneficial or detrimental to firms. Companies now increasingly exclude surcharges from the total price to keep the base price low and to be more competitive on comparison sites. Based on our research, we recommend that marketers consider locus of causality when choosing between surcharge pricing and an all-inclusive pricing approach. While surcharge pricing can be beneficial for companies by providing consumers with external surcharges, the disclosure of internal surcharges will lead to negative reactions. Our recommendation to selectively use external surcharges goes against the notion that surcharges will drive more favorable consumer response (e.g., through increased price transparency and price underestimation mechanisms). Instead, we suggest that all-inclusive pricing is more beneficial when surcharges have internal locus. Indeed, in the absence of surcharge pricing, consumers appear to respond as if the price increase was only partially under an internal locus of causality, suggesting that all-inclusive pricing has a potential goodwill benefit that firms can leverage.

*Types of surcharges.* We identify key characteristics of surcharges that systematically alter blame attributions as well as downstream consumer responses. First, blame is mitigated when an external surcharge is framed as permanent (vs. temporary); in contrast, for an internal surcharge, communicating that the surcharge is temporary or permanent has no effect. Hence, we recommend that marketers emphasize temporal stability, where possible, to attenuate consumer blame for a price increase when surcharges are external. (Interestingly, there appears to be no advantage to claiming that a surcharge is “only” temporary.) Second, firms can also reduce consumer blame by explicitly emphasizing the surcharge benefit that consumers receive from a price increase. However, we caution that this tactic only works when surcharges are externally driven; such efforts appear ineffective for internal surcharges.

These recommendations regarding surcharge characteristics suggest the need for firms to better understand consumer perceptions of surcharge locus, temporal stability, and benefit. For example, do consumers understand the temporal stability of surcharges as intended, and do consumers perceive that the surcharge delivers the promised benefit? Firms should carefully communicate information regarding surcharges to emphasize the desired characteristics (e.g., framing the surcharge in ways that emphasize the desired temporal stability and benefit levels) but should also consider surcharge characteristics in the design of pricing tactics themselves (e.g., via the selection of surcharges that vary naturally on the desired characteristics). To summarize, firms can choose whether to use surcharge pricing and what surcharges to employ, and our research provides a framework for managers in terms of making those decisions based on key surcharge characteristics (see Web Appendix E).

*Multiple surcharges.* We examine how consumers respond to both single and multiple surcharges to understand how surcharges act in concert to affect consumer response. When multiple

surcharges are utilized, we find that internal surcharges tend to dominate. Hence, tactics to mitigate consumer blame attributions for a price increase by using external surcharges will be undermined if firms also use internal surcharges. Likewise, tactics that aim to buffer internal surcharges by drawing consumer attention to external surcharges are also relatively ineffective. In the case of multiple surcharges, consumers are also likely to experience processing constraints that firms may be able to leverage through the strategic display of information. For example, firms should consider presenting surcharges with more desirable characteristics in a more prominent way (while keeping in mind the danger of hiding fees; Kim and Kachersky 2006).

Together, these recommendations point to the need for firms to carefully consider the decision to utilize surcharges when communicating prices. Our recommendations provide guidance to managers on how to optimally design surcharge pricing and communicate price increases to consumers to mitigate negative reactions driven by blame. In turn, by offering managerial guidance on these aspects of surcharge pricing, our research is also relevant to public policy: Any manipulation of price communications raises the possibility of consumer backlash should such manipulation be discovered as well as the need for regulatory protection to avoid consumer deception. Finding effective ways to communicate price information is an important challenge for managers, and surcharge pricing is a powerful tool that can operate to both the benefit and detriment of firms and consumers.

## Appendix

**Table A1.** Measurement Items and Internal Reliabilities per Study.

Construct	Wording of Measurement Items <sup>a</sup>	1	2	3	4
Blame (adopted from Quigley and Tedeschi 1996)	The company is to blame for the price increase	X	X	X	X
	I reproach the company for the price increase	X	X	X	X
	The company is blamable for the price increase	X	X	X	X
	Cronbach's $\alpha$	.92	.91	.93	.89
Anger (adopted from Richins 1997)	The price offer irritated me	X	X	X	X
	The price offer frustrated me	X	X	X	X
	The price offer made me angry	X	X	X	X
	Cronbach's $\alpha$	.94	.93	.93	.78
Price Fairness (adopted from Campbell 1999)	The price is unfair/fair	X	X	X	X
	The price is unreasonable/reasonable	X	X	X	X
	The price is wrong/right	X	X	X	X
	Cronbach's $\alpha$	.95	.93	.96	.78

(continued)

**Table A1.** (continued)

Construct	Wording of Measurement Items <sup>a</sup>	1	2	3	4
(Negative) Word of mouth (adopted from Bougie, Pieters, and Zeelenberg 2003)	I would say negative things about the company to other people	X	X	X	X
	I would not recommend the company to someone who seeks my advice	X	X	X	X
	I would discourage friends and relatives from doing business with the company	X	X	X	X
	Cronbach's $\alpha$	.95	.94	.95	.90
Behavioral intentions (adapted from Chowdhury, Desai, and Bolton 2014)	The probability that I would consider taking up this offer is . . . .	X	X	X	X
	The likelihood that I would purchase this offer is . . . .	X	X	X	X
	If I were going to [rent a car], the probability of accepting this offer is . . . .	X	X	X	X
	Cronbach's $\alpha$	.96	.98	.98	.91

<sup>a</sup>All items were measured on 7-point scales. The wording was adapted according to the research setting.

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## Supplemental Material

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## Note

1. Attribution theory is concerned with how individuals infer the causality of a specific occurrence (Weiner 1985). Weiner (1980) categorizes causes on the basis of three dimensions: locus of causality, controllability, and temporal stability. Because locus of causality is closely related to controllability (Folkes 1984; Tsiros,

Mittal, and Ross 2004; Weiner 2000), our research focuses on locus of causality and temporal stability.

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