

Paying the Price: How Fees for No-Shows and Late Cancellations Influence Behavior in Contractual Settings

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Abstract

In industries where capacity is limited, no-shows and late cancellations present a significant problem. A popular way to address this issue is the introduction of fees for customers who do not honor their commitments. Using data from a multi-sport subscription platform, which introduced no-show and late cancellation fees, we investigate the effect of this policy on customer booking behavior, i.e., attendance and timeliness of cancellations, and customer retention. We leverage the existence of two separate member types - self-payers and employer-subsidized - to create a quasi-experimental diff-in-diff design. We find that while late-cancellation penalties had the intended effect on customer behavior, the no-show fees did not. Notably, there was a significant uptick in the number of cancelled memberships, in particular for subsidized customers. We conclude that companies should be careful as losing customers may cost more than capacity under-utilization.

Keywords: customer relationship management, no shows, fitness industry

Track: Relationship Marketing