A Reply to Comments on ‘Should Consumers Request Cost Transparency?’

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This response revolves around three commentaries: Lowe’s view on key mechanisms through which greater transparency could influence consumer product evaluations (Lowe, 2015); Kuah and Weerakkody’s critical assessment on whether cost transparency is good for consumers (Kuah and Weerakkody, 2015); and Singh’s perspective on what is behind the price tag and why companies should embrace cost transparency (Singh, 2015).

In a balanced review, Lowe states that ‘cost transparency is already here’, though more so in the business-to-business markets, and reflects on whether it has a place in the business to consumer markets as well. Starting with the notion that consumers have the right to request information needed for making a judgement about the value of products they consider buying, Lowe correctly states that such provision will come at a cost both to consumers and suppliers. To consumers, this cost includes additional information requiring more cognitive processing and further learning of ways in which such information can be used for better decision-making (Lowe, 2015). We agree with this point, but are conscious that any information ‘overload’ caused by cost transparency may be negligent when compared with the amount of information that is targeted to consumers on a daily basis (Chen *et al.*, 2009; Lee and Lee, 2004; Malhotra, 1982; Park and Lee, 2009). Learning what *exactly* cost information refers to and how such information can be used to enhance decision-making is indeed by far a more complicated issue.

Lowe’s review, however, goes beyond the availability of cost information and stresses the need for pertinent cost information (Lowe, 2015). This is a detail we fully subscribe to and have argued that consumers are indeed lacking relevant information that could help them make price fairness judgements. Whilst no particular types of cost information have been discussed and by drawing attention to the different kinds of information, each type of cost provides a strong bearing on how cost information might be interpreted in a fairness framework. The issue is further perplexed when, in addition to within companies’ variation (i.e. different types of costs), one takes into consideration the between companies’ variation (i.e. accounting practices and cost reporting). If cost information varies widely, consumers are likely to be confused (Lowe, 2015). We agree with this view but believe that even if cost information is standardised (i.e. direct unit cost information), such information will be easy to use at zero level distribution channels (i.e. manufacturer to consumers) and will only become progressively more complicated at high order distribution channels.

In addition to the complex nature of cost information, Lowe argues that such information might not be appropriate for certain (i.e. luxury) products where high prices signal exclusivity as opposed to raw value (Lowe, 2015). We are of the opinion that there is a positive relationship between the unit cost and the sale price of a product, though the discrepancy between the two could vary widely between different product categories. Consumers wanting exclusivity, we argue, may in fact actively seek large cost-price discrepancies in contrast to consumers interested in competitive pricing. Nonetheless, cost transparency in luxury products will be appropriate to the extent that the cost-*quality*-price relationship is reasonable. Lowe has also identified instances where cost transparency can be beneficial to companies, though this may not be the case for all firms (Lowe, 2015). We would like to reinforce this view and add that cost transparency will create a push for better resource utilisation at the firm’s level. Despite the fact that Lowe concludes that cost transparency is not ‘necessary’ as, in some instances, it might not influence consumer choice, he considers it as an attribute of a product

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and finds it appropriate for consumers to request such information from companies. Lowe also considers that cost transparency is a way for companies to communicate product value more clearly. This view is shared by Singh (2015) and is in line with what has been advocated in the target article.

Kuah and Weerakkody provided a critical review on the drawbacks of cost transparency (Kuah and Weerakkody, 2015). Specifically, they argue that cost transparency: a) entails built-in costs to be born by consumers; b) is currently not equitable between businesses within and across sectors; and c) difficulties in comprehending unit cost information will diminish its viability. Following a short introduction of pricing issues in monopolistic and oligopolistic environments, the authors cite Starbucks and Apple as examples of companies offering value in addition to products. Against this background, the authors quote Zeithaml's (1988) contention that consumers use an internal reference price to encode prices as cheap, reasonable or expensive, and emphasise the difficulties in rationalising the value judgements of consumers, even when there are no information asymmetries in the market (Kuah and Weerakkody, 2015). We partly agree with this claim but argue that if value rationalisation is indispensable in market exchanges and a reference standard for value judgements is needed, then it is better for this reference standard to be as objective as possible. An internal reference price, perhaps different for each individual, cannot be an objective reference standard.

The Internet has undoubtedly increased price transparency (seen by Kuah and Weerakkody as a threat to companies) and this transparency allows consumers to make inferences about a product's manufacturing costs (Kuah and Weerakkody, 2015). The authors postulate that consumers are capable of making inferences about the cost of any product, but we argue that these inferences are currently mere guesses. If we assume that cost information is important for decision-making, then actual cost information is far more accurate and therefore useful than any (educated) guess. Kuah and Weerakkody (2015) claim that if 'pricing becomes too transparent' (i.e. cost information becomes available) then: a) a seller's ability to obtain higher prices will be impaired; b) products will turn into commodities; c) customer loyalty will decrease; and d) companies' reputations will be damaged. From a company's point of view, the threats of unit cost information - in a) constraining companies' flexibility with pricing (though only perhaps for the higher end of pricing; b) turning non-differentiated products into commodities; c) eroding customer loyalty when the offerings do not provide the expected value; and d) damaging the reputation of companies engaged in unfair pricing - are real but with the exception of a) above, they are already present in the market. Thus, on balance, cost information is highly unlikely to exacerbate these threats.

Whether unit cost information could help consumers make price fairness judgements is an issue for further debate, and this debate should take both the supply and the demand side into consideration. Starting with the premise that consumers have the right to know whether the products they consider buying are fairly priced, the question of whether cost transparency can deliver information that would allow for such fairness judgements is crucial. Kuah and Weerakkody (2015) argue convincingly that making unit cost information available will be a costly exercise to companies and this cost will inevitably be passed on to consumers. Furthermore, the complex nature of cost information and the difficulty in understanding such information will call for consumers' willingness to bear the extra cost of using such information (Kuah and Weerakkody, 2015). We acknowledge that any type of cost other than the direct unit cost will be complex and challenging to calculate *in the first instance*. However, direct unit cost information can be easily calculated, comparable between products and effortlessly understood by consumers. Above all, it can be used as a standard to which prices can be compared against and price fairness judgements made.

Whereas Kuah and Weerakkody (2015) have provided a critical review on cost transparency from the customer's perspective, Singh has taken an organisational approach and considered reasons why companies should embrace cost transparency. Seeing cost transparency as 'seller sharing cost-related information with the buyer', cost transparency is a disruptive trend, which is being accelerated by the Internet (Singh, 2015). We are in agreement with Singh's view that cost transparency can negatively impact on a company only when, in the absence of a clear reason for a higher price, it is unfairly charging consumers a higher price relative to the competition. With an assumed positive impact of

cost transparency on brand loyalty, sales (as also illustrated by Mohan *et al.*, 2014), and business relationships, Singh argues that cost transparency could become a *modus operandi* for better management of the stakeholder's expectations, societal welfare and ecological sustainability (Singh, 2015). Conscious consumers, according to Singh, reward companies whose products (and practices) reinforce good ethics and transparency. We fully subscribe to this view and argue that such consumers could become the driving force of the cost transparency initiative.

Singh cites two prominent cases which reveal how proactive the supply side is. For example, Honest By (www.honestby.com) already provides a detailed breakdown of costs for its products and shows how the company tries to connect with its customers to develop long and lasting relationships. As companies have already, or are moving towards, the sphere of cost transparency (e.g. Fair Phone; Nudie Jeans; Elance.com, Taskrabbit.com), the true benefits will start accruing. Singh reflects on the benefits of minimising information asymmetries (i.e. cost information) and stresses the importance of consumer empowerment in terms of making more informed purchase decisions (Singh, 2015). Although cost transparency will demand that most companies justify their prices, Singh argues that differentiation, innovation, and efficiency will become critical success factors. These points are entirely in line with the arguments that we have presented in our article.

Singh furthermore commented on the challenges that cost transparency could bring to businesses, specifically, arguing that cost transparency can reveal the efficiency level of companies' operations as less efficient or un-innovative firms will lose their customer base and eventually be forced out of the market (Singh, 2015). We fully agree; it is only by creating and maintaining a cost (i.e. efficiency), price (i.e. fairness), or differentiation (i.e. innovation) advantage that companies will be able to secure success in the increasingly transparent business world that we are entering. It is also our belief that with a reduction in information asymmetries between the supply and demand sides, and the increase in consumer empowerment, the demand side is preparing to have a decisive contribution to the economic leanness and welfare of societies.

Given its potential impact on both theory and practice, the arguments presented for and against provisioning of unit cost information to consumers is an issue worthy of further debate and empirical investigation. We call for empirical studies to shed light on issues including, but not limited to, drivers and challenges/barriers of making unit cost available, appropriateness of unit cost information for different category of products, information overload caused by cost transparency, effect of availability of unit cost on the consumer decision-making, empowerment of consumers through unit cost information, impact of cost transparency on realisation of fairness, differentiation, competitive advantage and sustainability for businesses and impact of cost transparency on market dynamics and consumer behaviour.

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