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Commentary: is cost transparency necessarily good for consumers?

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Abstract
Purpose – The purpose of this paper is to present a critical viewpoint on the negative aspects of market, price and cost transparencies to consumers in terms of its costs.
Design/methodology/approach – It adopts an inter-disciplinary approach from the marketing, economics and accounting literature. The paper explores market transparency in the ever-changing world and uses brand names like Starbucks and iPhone to illuminate instances where imperfect markets are supported by consumers.
Findings – Recognizing the role that the Internet plays in promoting price transparency, it espouses how extant information can add costs and risks to the consumer's value judgement. Finally, the paper advocates that arbitrary judgements existing in cost accounting make it difficult to compare unit cost. This could result in consumers paying extra money to benefit from cost transparency.
Practical implications – This paper argues that three main issues may arise in providing unit cost to the consumers. First, transparency entails built-in costs, whether they are in taxes or product prices. Second, in accounting, unit cost information is currently not equitable between businesses. Finally, the paper argues that extra time and effort in making sense of unit cost information lead to questions about the viability of transparent costing.
Originality/value – The arguments for transparency have been widely discussed, supported and promoted by many. While negative aspects are known to businesses, few consider the consumer's perspective. By amalgamating evidence and arguments from different disciplines, this paper lends value, providing a critical perspective where transparent unit cost revelation can be more costly and less viable than what is assumed.

Keywords Consumer behaviour, Transparency, Percieved value, Unit cost
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Introduction
Today, the Internet provides products and services, their prices and other important attributes that are available for comparison, review and purchase around the world (Porter, 2001). The abundance of free, easily obtained information makes a seller's cost and price more transparent to buyers in the global marketplace (Sinha, 2000). The widespread utilization of information technology (IT) offers buyers the ability to observe and share information. This includes information related to costs and purchase

prices, which would otherwise be maintained secretly by *both* parties (Lamming *et al.*, 2001).

This article focuses on the negative impacts arising from market, price and cost transparency. It first looks at market transparency in this ever-changing world, where big brand names like Starbucks and iPhone dominate the marketplace, and questions whether cost transparency will change this. The next section recognizes the role the Internet plays in creating a more transparent world and discusses how overwhelming information will add costs and risks to consumers. The final section explores how arbitrary judgements in cost allocation can make it difficult to compare unit cost, resulting in consumers paying extra money and time to benefit from cost transparency.

Is market transparency ever possible?

Market transparency deals with the availability of information about products and services, their prices and the suppliers. Hultman and Axelsson (2007) contend that transparency improves the market quality, and complete transparency leads to perfect competition. As information symmetry is a prerequisite for a free market, Simintiras *et al.* (2015) point out that different levels of information asymmetries exert harmful effects on its actors and the market. However, will consumers consciously embrace market transparency? Possibly not, as one questions when consumer purchase behaviours actually permit such competition to take place.

For instance, Starbucks charges more than most other coffee shops. Starbucks does this by creating a well-known name and reputation in "a sort of monopoly" (Boyes and Melvin, 2014, p. 68). A monopolist can produce less output and sell it at a higher price. The demand the monopolist faces is, in fact, the market demand curve. An earlier lawsuit in 2006 alleged that Starbucks exploited its monopoly power in the specialty retail coffee market (*CNN Money*, 2006). Carter and Curry (2010) still find that consumers express a willingness to buy the more expensive of two identical items. As a result, Starbucks has no inclination to reduce its price. Starbucks' advertisement reinforced the notion that there is more to a cup of coffee than just the coffee. Although Starbucks has gone further than most companies to explain its cost structure by describing the allocation of price among its supply-side agents (Carter and Curry, 2010), a number of consumers continue to subscribe to Starbucks' notion of value.

The smartphone market is dominated by a handful of companies in an oligopolistic market: Microsoft Windows Mobile, 10 per cent; Apple iOS, 27 per cent; RIM Blackberry OS, 22 per cent; Android OS, 37 per cent; Symbian OS, 2 per cent; and Palm/WebOS, 3 per cent in April 2011 (Dransfield, 2014, p. 130). Apple iOS faces a kinked-demand curve because of few competitors in an oligopolistic market. If the oligopolist increases price, then competitors in the market *will not* follow with price increases. Hence, the Apple can charge a price premium. If any oligopolist reduces price, then he is still *unlikely* to increase sales because rivals will follow suit and lower their prices. Occasionally, price wars between leading oligopolists may reveal some idea of costs, but the prices will be restored shortly to pre-promotional prices. Like the monopolist, the lead oligopolist tends to capture the consumers' loyalty and patronage through value propositions. These can come in the form of increased warranty, perceived quality, better service and prestige through membership. In the case of Apple iOS, it is its pool of supporters who are willing to queue overnight for the latest gadgets and pay a price premium for their devices.

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Although information symmetry and perfect competition are seen as ideal, sometimes, it is the consumer who allows imperfect markets to occur. They place value to being as "worthwhile to possess, to strive or exchange for" (Rokeach, 1973, p. 85) or the product's ability to enhance social self-concepts such as status (Sheth *et al.*, 1991). Zeithaml's (1988) value judgements consist of perceived quality (product- and service-related benefits), monetary cost, non-monetary costs and hedonic shopping benefits. Monetary cost is the price consumer pay. Yet consumers encode the price as "cheap", "reasonable" or "expensive" based on their internal reference price (Zeithaml, 1988). Therefore, even with information symmetry, it is difficult to rationalize value judgements.

The Internet and price transparency

Sinha (2000) and Porter (2001) argue that e-commerce and the Internet represent the biggest threats for a company to brand its product, extract price premium and generate high profits, as well as threatening both the retailer and manufacturer. For retailers, it means that customers will have a much better sense of a product's wholesale costs, as customers can compare prices within regions of a country, and even globally, using the Internet. For manufacturers, transparency will mean that consumers will be better able to infer a product's manufacturing costs, making it much harder to impose large price premiums. Sinha (2000) contends that buyer-led pricing and reverse auctions allow consumers to see the "price floor" more easily than they can with traditional shopping.

Rajendran and Tellis (1994) note that consumers tend to use reference prices based on contextual component, such as brand, within the context of similar products on offer. The lowest price is the most important cue for the consumer's reference price to determine if more expensive brands really offer the quality or the status that justifies their higher prices. To some extent, consumers have been able to gain a better understanding of costs and benefits from third party sources from consumer education magazines like Which?, when comparing the bundle of benefits and not merely the attributes of the product (Day, 1990; Peter and Olson, 1990). Although price transparency is important, consumers will weigh the bundle of benefits against monetary cost, as well as the costs of time and efforts (Zeithaml, 1988).

Yet information on the Internet is subjected to abuse and is difficult to authenticate (Hansen *et al.*, 2006). Companies can self-promote their products or malign other competitors. In addition, companies frequently resort to counter strategies by price discrimination, product differentiation and bundling (Ancarani, 2002), which make it difficult for price transparency. Simintiras *et al.* (2015) also point out issues of price concealment through small prints to inconspicuous ways of tossing in gifts or adding extra charges during the process of vending. The Internet has certainly increased in the quantum and quality of available information needed for decision-making (Sinha, 2000; Hansen *et al.*, 2006). Overwhelming information on the Internet means more time and effort will be required. Non-emotional costs will be the time and effort (Baker *et al.*, 2002) to find and compare product information and the attached mental stress or emotional labour (Zeithaml, 1988). The costs of obtaining a product, its perceived and logistic benefits are the major concerns of buyers. Consumers also encounter risks when they face the uncertainty or potential

negative consequences of consumer activities: being cheated, overcharged or misled into buying an unnecessary product (Lai, 1995). Hence, the cost in price transparency may outweigh the benefits.

But price transparency does not represent the real unit cost, as Sinha (2000) argues, "it's virtually impossible for buyers to find out what a seller's real costs are". Consumers are often left to infer unit cost by evaluating competing brands or offerings. There are also four impairments when pricing becomes too transparent. First, it impairs a seller's ability to obtain high prices. Second, cost transparency can turn products and services into commodities. Third, it can weaken customer loyalty to brands. Finally, transparent costing may damage a company's reputation by creating perceptions of price unfairness.

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Transparent costing and real unit cost

On the other hand, it is argued that the availability of unit costs allow price comparison and benefit consumers in identifying the best alternative within the context of price "fairness" (Simintiras *et al.*, 2015). Making unit cost information readily available will allow consumers to choose the best deal in terms of price and value. Also, unit cost availability makes businesses sensitive to both cost and pricing, resulting in greater efficiency.

But for unit cost to be publicly available, it has to depend on a statutory directive for public disclosure, such as the Freedom of Information Act 2000 (Beith, 2004). There is no current regulation for management accounts to be audited. An unaudited management account would be less meaningful, as there can be some arbitrary judgements in management accounting towards cost allocation (Hewins, 1993; Pashang *et al.*, 2014). Only verifiable and intelligible costs are accepted, because cost information should be constructed on the basis of judgement and principally agreed rules (Pashang *et al.*, 2014). Hence, businesses will need to spend additional costs. Disclosure requires public enforcement authorities (in audit) which will subsume more taxpayers' monies. So that will be additional costs to the consumers.

The unit cost comprises direct and indirect costs. The direct unit cost is the direct labour and raw material costs, for example the amount of direct labour, sugar and flour required to produce, say, a cupcake. However, there is a further cost hierarchy towards indirect costs allocation (Cooper, 1990). Indirect costs constitute a sizeable make-up, which is less clear in financial statements. In some cases, there will be a batch-related cost where economies of scale kicks in, for example electricity used to bake 40 cupcakes in 1 oven. Also, there are product-related indirect costs (line manager's salary, R&D costs) and facility-level indirect costs (factory rental, insurance, heating and CEO's salary) that need to be allocated to the unit cost. How the latter is actually allocated is based on factors like revenue generated, workers employed or shop space used for each product. Hence, unit cost for the same type of product can be arbitrary for single-product business to a multi-products company.

Unit costs also vary according to sectors. It will be meaningless to compare unit costs of a particular retail outlet that distributes a product versus a factory that produces and distributes the product. Some sectors, such as heavy and capital intensive industries, require expensive facilities. Hence, their indirect costs will be higher compared to a light industry, such as food and beverages. Hence, comparing unit cost across sectors and products does not reveal much. Finally, untrained and lay-consumers will need to spend

extra time and effort in making sense of and processing the information. It may not make sense to consumers to spend extra "costs" in doing so.

Therefore, our first question begs how to evaluate a "good" or "bad" unit cost as management accounting can hide indirect costs via various allocations. The next question is whether a consumer needs to invest indirect time and monies to reason this through higher taxes, education or external entities to make sense of the information presented or simply take unit cost at face value?

Conclusion

Market behaviour and consumer behaviour are driven by irrational value judgements in this imperfect world. Such behaviours can be costly to consumers. This article argues that sometimes, it is consumers who allow such markets to occur by placing value judgements on perceived benefits and costs on their choice of product or service. Market and price transparency, though useful, would not change this.

Consumers with differing value judgements will appreciate the role that e-commerce and the Internet play in creating more transparent pricing. The Internet has led to buyer-led pricing, where consumers can name the price they are willing to pay for airline tickets, hotel rooms and groceries. However, information is subjected to abuse and self-promotion, therefore needing authentication. Due to the ever-increasing information, this article contends that more time and effort will be required in consumer's value judgement. Today's consumers also have an expanded concept of value that includes the convenience of purchase and expedient services (Treacy and Wiersema, 1993). The costs of obtaining the perceived product, logistic benefits and risks need to be added to transparent pricing. These negative impacts on the consumers may outweigh the benefits.

Three main issues exist on unit cost transparency. First, transparency entails built-in costs to consumers, whether it is in taxes or product prices. Second, unit cost information is currently not equitable between businesses within the sector and across sectors, which can be a source of confusion. Finally, lay-consumers may need to spend extra time and effort in making sense of and the processing of unit cost information, either through external entities or education that entails time and effort. Such negative impacts will lead to questions in the viability of cost transparency and whether the latter is necessarily good for consumers.

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