



Price Fairness and Brand Credibility by Effective Disclosure of Cost Information

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Objectives In an attempt to enhance cost transparency, fashion brands (e.g., Everlane, Grana) make an effort to voluntarily disclose itemized costs such as materials, labor, transportation, markup and so forth (Mohan et al., 2015). With the cost transparency strategy, companies can form a closer relationship with the consumer (Singh, 2015) but it may hinder a brand from obtaining high prices for their products (Kuah & Weerakkody, 2015). To effectively use the cost transparency strategy, providing a clear reason for the prices is extremely critical, and lacking this proof negatively impacts the company (Singh, 2015). Many studies on cost transparency have focused on its benefits and challenges, yet only few empirical studies assess consumers' responses toward cost transparency (Mohan et al., 2015). Furthermore, how consumers' perception is affected by available cost information is largely unknown. Building on the prospect theory, this experimental study was aimed at exploring effective ways of disclosing cost and understanding consumers' responses with the following research questions: (1) how varying cost information results in positive consumer perceptions (price fairness and brand credibility), (2) how gain and loss mediate between cost information and positive perceptions, and (3) how loss and gain framed cost information affect perceptions. With a between-subjects experimental design (Table 1), Study 1 examined the effect of cost information by comparing *C*, *S1* and *S2* conditions. Study 2 compared *S2* and *S3* to find the effect of differently framed cost information by adding a different cost structure from traditional retail: *S2* (loss framed) emphasized loss derived from non-purchase of focal brand due to traditional retail's higher markup rate than the brand's rate, and *S3* (gain framed) emphasized the benefit of purchasing the focal brand because despite of the same retail price, traditional retail provided low true cost and high markup.

Control (C): retail price \$40	S1: retail price \$40 = true cost \$20 x markup 200%
S2: retail price \$40 = true cost \$20 x markup 200%	S3: retail price \$40 = true cost \$20 x markup 200%
traditional \$160 = true cost \$20 x markup 800%	traditional \$40 = true cost \$5 x markup 800%

Table 1. Stimulus Development (developed based on market research and pre-test)

Study I. Cost information effect Prospect theory argues that the deviation from a reference point determines gains and losses, and people are likely to evaluate an attribute's value based on the deviation rather than its absolute level (Tversky & Kahneman, 1981). That is, gains or losses relative to a given reference point determines consumers' value perception (Hardie et al., 1993). In this study, traditional retail's price information served as a reference point from which consumers estimate their gains and losses when deciding to purchase or not purchase. Given that valuation to attributes depends on consumers' gain and loss perception, rather than the absolute and actual value of the attributes, we posited mediating roles of gains and losses.

H1: When itemized cost information is provided with a benchmark (S_2), a consumer perceives greater price fairness and brand credibility than when presented with only the retail price (C) or with only the true cost and markup (S_1). **H2:** Gains and losses mediate the effect of cost information on price fairness and brand credibility, respectively.

Study II. Loss aversion effect According to prospect theory, responses to losses are greater than responses to gains, which is called loss aversion (Tversky & Kahneman, 1981). That is, consumers are more likely to accept a higher cost (losses) than additional benefits (gains) (Thaler, 1980). In this vein, we expected greater consumer responses in S_2 , which emphasized the higher cost of traditional retail, than in S_3 , which emphasized the additional benefits of the focal brand. **H3.** In increasing (a) price fairness and (b) brand credibility, emphasizing losses from non-purchase of the focal brand is more effective (S_2) than emphasizing gains from the purchase of the focal brand (S_3).

Procedure An online survey company recruited 292 U.S. subjects nationwide over the age of 18 by quota sampling method. After being randomly assigned to one of the conditions, respondents were asked to read the given stimulus and answer questions related to perceived gain, loss, price fairness, and brand credibility on a 7-point Likert scale. There were approximately 71-74 participants per condition. The reliability of responses was supported by Cronbach's α values (.96-.98), and moderate to high correlations among variables were found (.43-.73).

Findings After a successful manipulation test of cost transparency, ANOVA and post-hoc tested the cost information effect. In support of H1, as compared to C and S_1 when itemized cost was provided with benchmark (S_2), a consumer evaluated the given price more fairly ($M_c = 2.19$, $M_{S_1} = 2.85$, $M_{S_2} = 3.13$, $F = 5.04$, $p < .01$) and the brand more credibly ($M_c = 3.41$, $M_{S_1} = 4.18$, $M_{S_2} = 4.25$, $F = 7.55$, $p < .01$). We tested the mediating role of gain and loss following Hayes and Preacher's (2014) study, in which S_1 and S_2 were coded as two dummy variables based on C (Figure 1). As a result, the effects of cost information on price fairness and brand credibility become insignificant after controlling for gain and loss, respectively, supporting H2. To test the loss aversion effect, an independent sample t-test compared price fairness between S_2 and S_3 ($M_{S_2} = 3.13$, $M_{S_3} = 2.64$, $t = 1.44$, $p > .05$) and brand credibility ($M_{S_2} = 4.25$, $M_{S_3} = 4.34$, $t = -.39$, $p > .05$), but significant differences were not found in the result. Thus, H3 was not supported.

Conclusions Consistent with the previous study (Mohan et al., 2015), the findings suggested that itemized costs with benchmarks provided consumers with a good understanding of the pricing and contributed to a credible image of the brand (H1). Particularly, perceived gain and loss from the cost information played a critical role in eliciting these positive perceptions, rather than the given cost information per se (H2). This study did not find a loss aversion effect (H3). Given that a t-shirt is a low involvement product, high-involvement products like a cashmere coat may show different findings. The empirical findings of this study suggest ways of justifying pricing, especially for the brands which inevitably employ relatively high pricing. Such efforts would help consumers better accept the cost, and in the long term, strengthen bonds with the brand.

References available upon request

