

New research finds cost transparency can increase sales 20%

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Businesses don't typically disclose information to consumers on how much it costs to produce a product. However, new research in the INFORMS journal *Marketing Science* provides evidence that doing so

can increase consumers' purchase interest by more than 20%.

The study, "Lifting the Veil: The Benefits of Cost Transparency," conducted by Bhavya Mohan of the University of San Francisco and Ryan Buell and Leslie John of Harvard Business School, found that cost [transparency](#) can increase sales, but only when done voluntarily. They also found that cost transparency increases purchase interest even when prices are unexpectedly low or high.

"Even if prices aren't exactly what the customer might envision, the customer appreciates the act of cost disclosure," says Mohan, a professor in the marketing unit at the University of San Francisco.

"It's all about the psychology of disclosure and trust," said Buell, a professor in the technology and operations management unit at Harvard Business School. "Cost transparency represents an act of intimate disclosure and fosters trust. Heightened trust enhances consumers' willingness to purchase from a [business](#)."

The researchers conducted six experiments to illustrate the effects of cost transparency.

Cost transparency conveys more [sensitive information](#) to consumers than operational transparency alone by referring to the disclosure of the costs to produce a good or provide a service. But it can be risky because it makes the business vulnerable to experiencing [negative consequences](#) such as consumer ire or supplier price increases.

One experiment was a partnership with a dining services organization of a large university in the northeastern U.S. in which a month of lunchtime sales was studied. That organization revealed the costs of producing a bowl of chicken noodle soup, including the cost of each component and the total cost. Cost transparency is associated with a 21% increase in the

probability of buying a bowl of soup with the probability increasing from 2.3% to 2.8% per customer.

Another experiment looked at a private online retailer and their sales of a leather [wallet](#). For three of the wallet colors, the online product detail page included, among other information, the costs incurred to produce the wallet. The company mistakenly failed to use the graphic on two of the colors for the wallet.

"We compared the daily sales between the wallet colors before and after the graphic was introduced over a 92-day period. The infographic increased sales of the wallets by 22%," said Buell. "These studies imply that the proactive revelation of [costs](#) can improve a company's bottom line."

More information: Bhavya Mohan et al, Lifting the Veil: The Benefits of Cost Transparency, *Marketing Science* (2020). [DOI: 10.1287/mksc.2019.1200](#)

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