

The Effect of Price Transparency on Brand Perception and Purchase Intention

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Background, Literature Review and Purpose

Price transparency refers to the seller sharing cost-related information with the buyer, so that the buyer can effectively determine the price fairness of the market offering (Simintiras, et al., 2015). Market research shows that consumers demand for transparent price information because it allows them to see not only how much it really costs to make a product but also how and where the product is made (Schlossberg, 2015). Previous literature indicates that firm's transparent practices can have a significant impact on purchase intentions as well as consumers' evaluations of products, brands, and companies (Bhaduri & Ha-Brookshire, 2011). When a firm discloses information on costs - typically tightly-guarded secrets - it increases consumers' attraction and trust to the firm and their probability of making a purchase (Singh, 2015, Simintiras, et al., 2015). Since price transparency reveals the steps (or processes) involved in the production of goods or services, it can also increase consumers' perceptions of product quality and influence the company's reputation for corporate social responsibility (CSR) (Golob, et al., 2013).

Thus, apparel companies can look at price transparency as an opportunity to lead to greater differentiation, resource conservation and competitive advantage. For example, several innovative fashion companies, such as Everlane, Honest By, and Nudie Jeans Co, have leveraged innovative practices and processes to clearly show its customers how its products are sourced, manufactured and even priced for final mark-up (Egels-Zandén, et al., 2015; Strähle & Merz, 2017). They disclose their costs breakdown to showcase how it's ethically and sustainably sourced product components contribute to the final price. Through price transparency, these companies tell their customers the story behind yarn and button origin to fabric and manufacturing details. Thus, these companies, while using cost transparency, are still able to charge premium prices for its products. Since very few studies to date have empirically investigated the effect of price transparency, this study aims to investigate the impact of transparent pricing on consumers' perceptions of the brand and intentions to purchase its product. Recent research indicates that characteristics of the product could impact the effectiveness of price transparency (Carter & Curry, 2010). For example, Mohan, Buell, and John's study (2018) suggests that cost transparency becomes less effective as product price increases. In addition, we are interested in whether price transparency interacts with Made-in-USA as previous research indicates consumers believe US-made products are being more socially responsible (Bhaduri & Ha-Brookshire, 2015). Therefore, this research also examines these two factors (product price and Made-in-USA) that may moderate the effectiveness of price transparency (see Figure 1).

Research Design and Methodology

The experiment we conducted used a 2 x 2 x 2 fractional factorial design. Four scenarios were developed to manipulate three independent variables: transparent pricing, price, and Made in USA (see Table 1). Specifically, the cost information (*detailed cost information is not available* or *detailed cost information is available*), product price (\$68 or \$204), and country of origin information (*Not made in USA* or *Made in USA*) was embedded in each ad along with a picture of the product. An example of the simulation scenarios is provided in Figure 2. Jeans, the world's most popular article of clothing, were selected as product stimuli in the study. We used MTurk to distribute the survey. Participants who met eligibility criterion were recruited to complete an online survey through the MTurk platform. 210 participants completed this experiment in exchange for a small fixed payment. Each participant was randomly assigned to one of the four versions of ads. Participants were first asked to carefully review the assigned advertisement. After ad exposure, participants were told to complete an attached questionnaire that collected information on the dependent measures, manipulation check, as well as standard demographics. Of the 210 collected questionnaires, 191 responses were considered valid and were used in the study. The participants' mean age was 31 years (age range 18–64), and 50.3% of the sample were female.

Results and Implications

We conducted a multivariate analysis of variance (MANOVA) on four dependent variables. A three-way MANOVA revealed *a significant main effect for price transparency on perceived quality, perceived value and brand attitude*. This implies that when a company provides consumers with detailed price information for its products, consumers tend to perceive its products to be of higher quality. Transparent pricing can also help the company create a higher perceived value for its products and generate more favorable attitude toward brand and a company's CSR. The results of MANOVA also suggest that *there is a significant interaction between price transparency and Made in USA for perceived product quality*. The subsequent analysis and simple effects tests indicate that with the detailed cost information provided for the product, consumers infer higher quality when the product is made in USA than not made in USA. In addition, *there is a significant three-way interaction between the three independent variables for brand attitude* (see Table 2). The subsequent analysis and simple effects tests indicate that price transparency strategy is an effective way to generate more favorable brand attitude especially for high-end brands made in USA and for low-end brands not made in USA.

Our research is the first empirical effort to investigate impact of transparent pricing on consumers' perceptions of the brand and intentions to purchase its products. This study also examines the moderating effect of product price and country of origin on the effectiveness of price transparency. The findings of this study represent an important step forward in better understanding consumers' response to transparent pricing. Our findings also have confirmed the strategic importance of transparency in corporate social responsibility (CSR) communication.

FIGURE 1: the Conceptual Model

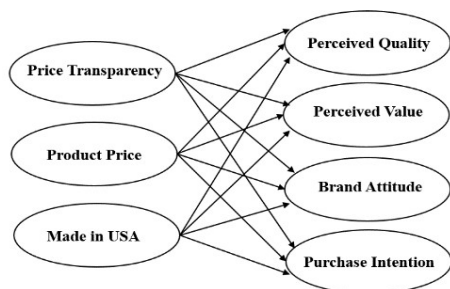


TABLE 1. Fractional Factorial Design

Attributes	Levels
1. Transparent pricing	1. No: the company does NOT provide consumers with detailed cost breakdowns for each of its products 2. Yes: the company provides consumers with detailed cost breakdowns for each of its products
2. Product price	1. Low: \$68 2. High: \$204
3. Made in USA	1. No: products are NOT made in USA 2. Yes: products are made in USA

FIGURE 2: Example of Simulation Scenarios



TABLE 2. MANOVA and Univariate Results

Variable	MANOVA Results		Perceived Quality		Perceived Value		Brand Attitude		Purchase Intention	
	Wilks' Lambda	F	Mean Square	F	Mean Square	F	Mean Square	F	Mean Square	F
Price Transparency (A)	0.83	9.09***	22.54	49.59***	6.25	6.27**	10.02	47.95***	4.09	3.25
Product Price (B)	0.84	8.60***	0.97	1.70***	17.21	18.34	0.15	0.59	28.84	25.59***
Made in USA (C)	0.95	2.35	12.11	23.77***	3.38	3.34	4.47	18.74***	2.68	2.12
A x B	0.96	1.65	0.11	0.23	0.04	0.05	0.04	0.05	0.09	0.08
A x C	0.95	2.58*	2.50	5.95*	1.95	1.97	0.26	1.30	0.37	0.29
B x C	0.99	0.36	0.41	0.81	0.41	0.81	0.16	0.67	0.16	0.67
A x B x C	0.95	2.60*	0.01	0.03	0.11	0.12	1.05	5.44*	0.51	0.47

NOTE: *p ≤ .05; **p < .01; ***p < .001

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