

# **Implementing cost transparency**

## **Designing a method for the implementation of cost transparency in a supply chain**

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## **ABSTRACT**

Before implementing cost transparency, firms should understand its requirements and implications. When firms implement cost transparency for the purpose of improving the supply chain efficiency, two methods are identified to reduce the total supply chain cost. First, exchanging costing information could support horizontal learning if it is used as input for discussions about the most efficient approach to perform certain activities. Second, when firms exchange costing information to identify duplications in the supply chain and conduct discussions about where activities can be performed efficiently, cost transparency could lead to vertical efficiency improvements.

However, while implementing cost transparency in a supply chain can contribute to the identification of efficiency improvements, firms must also understand that to achieve these efficiency improvements, roles and responsibilities in the supply chain will change. To realize the full potential of cost transparency, firms must give up control in order to improve supply chain efficiency and realize cost reductions. Therefore, firms must consider whether they trust their partners to act in the interest of the supply chain, even if it is not in the other's own interest. This goodwill trust can support the successful implementation of cost transparency to improve the supply chain efficiency and realize cost reductions.

Developing goodwill trust might go along with a culture change from competitive towards collaborative. Within the supply chain, partners must understand each other's problems and difficulties and instead of negotiating the best deal for their own firm, the supply chain partners should try to solve the problems mutually in a way that will result in the lowest supply chain costs. To support this transformation, clear definitions, roles and responsibilities have to be developed, so that every party knows what to expect from the other parties. Based on these clear performance definitions and responsibilities, partners can evaluate performance objectively. Moreover, during the implementation of cost transparency, only exchanging costing information that is required to achieve its purpose can enhance goodwill trust, rather than a carte blanche approach where all costing information is exchanged in detail. By exchanging only relevant data in an appropriate level of detail, the partners' trust can improve that costing information is indeed used to improve the total supply chain costs and to create a win-win situation, instead of using it opportunistically to only meet a firm's own interests.

**Due to the confidentiality of the presented results, this paper is not publicly available**

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