



The business value of online consumer reviews and management response to hotel performance



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ABSTRACT

The business case for investing in online reputation has received increasing scrutiny in recent years. This study identifies the business value of consumer reviews and management responses to hotel performance. We present a panel data analysis of online consumer reviews and management responses of 843 hotels on a hotel review website. The results show that overall rating, attribute ratings of purchase value, location and cleanliness, variation and volume of consumer reviews, and the number of management responses are significantly associated with hotel performance. In addition, variation and volume of consumer reviews moderate the relationship between overall rating and hotel performance. Management responses, together with variation and volume of consumer reviews, moderate the relationship between certain attribute ratings and hotel performance. Implications of utilizing consumer reviews and management responses to leverage hotel business are provided.

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1. Introduction

To reduce uncertainty and perceived risks, consumers often search for word-of-mouth (WOM) when making purchase decisions. Prior research has presented extensive evidence showing that WOM is important in purchase decision and choice behavior (Godes and Mayzlin, 2004; Lee and Youn, 2009; Litvin et al., 2008). In the Internet era, the effect of WOM has been further enhanced in the form of electronic word-of-mouth (eWOM) (Litvin et al., 2008). Consumers can make their opinions easily accessible to other Internet users via message boards, twitter, product review websites, or online communities. Meanwhile, consumers are willing to search for the opinions and experiences of peer consumers before purchasing a product. According to findings from a joint research by PowerReviews and the E-tailing Group, about 22% of respondents said that they “always” read consumer reviews before making a purchase, 43% of respondents said that they check consumer ratings and reviews “most of the time”, and about 68% read “at least four reviews” before making a purchase (Kee, 2008).

When it comes to experience goods, the impact of eWOM is particularly salient (Lee and Youn, 2009; Litvin et al., 2008). The quality

of experience goods, such as hotel services, is often unknown before consumption. Consumers thus have to rely on eWOM to make inferences about the quality of such goods (Wirtz and Chew, 2002). Studies have investigated relevant factors that consumers evaluate in hospitality product consumption, including review valence (Duverger, 2013 for Expedia.com, TripAdvisor.com, and Orbitz.com; Ye et al., 2009 for Ctrip.com), product rankings (Luca, 2011 for Yelp.com; Ghose et al., 2012, 2013 for Travelocity.com), perceived usefulness (Racherla and Friske, 2012 for Yelp.com), expert reviews (Zhang et al., 2010b for Dianping.com), trust in consumer reviews (Ayeh et al., 2013; O'Connor, 2008; Racherla et al., 2012 for TripAdvisor.com), and management responses to consumer reviews (Park and Allen, 2013 for TripAdvisor.com; Ye et al., 2010 for Ctrip.com and Elong.com). Consumers write online reviews to indicate their level of satisfaction with the hotel (Liu et al., 2013) and inform other consumers on the Internet of their hotel stay experience (Park and Allen, 2013). Online reviews have become one of the most important information sources in consumers' lodging decision making (Ye et al., 2011) and are used considerably to inform consumers of accommodation quality (Filiari and McLeay, 2014). Consumers tend not to book a hotel without seeking online reviews (Kim et al., 2011). For example, 53% of travelers would not commit to a hotel reservation until they read online reviews and 77% usually or always refer to online reviews before choosing a hotel (TripAdvisor, 2013). Despite the prevalent use of online reviews by consumers, empirical research investigating the economic value of consumer reviews to hotel businesses still lags in literature (Duverger, 2013).

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Given the critical influence of eWOM on the hospitality industry, especially the hotel segment (Cantalops and Salvi, 2014), online reviews for hotels become a key component of hospitality management (Leung et al., 2013). Hoteliers become increasingly aware of the need to actively communicate with consumers on social media platforms (O'Connor, 2010) and develop strategies to address consumer reviews (Levy et al., 2013). In response to this need, leading hotel review websites such as TripAdvisor.com nowadays feature manager accounts through which hoteliers can interact with reviewers and respond to their reviews (Kim et al., 2011). Management responses make the two-way communication possible, particularly when service-related complaints are expressed in online reviews by consumers (Gu and Ye, 2014). As consistency in service quality is difficult to achieve, service failure is almost inevitable from time to time (Levy et al., 2013). Online complainers can rapidly become the travel opinion leaders of the electronic age (Litvin et al., 2008). Such dissatisfying critics negatively influence future attitudes toward hotels (Vermeulen and Seegers, 2009) and impede the ability of hotels to increase prices (Öğüt and Taş, 2012). Thus, management responses to online consumer complaints should be immediately used to address these critics (Mattila and Mount, 2003). Management responses that can address service-related issues and recover the service failure will likely increase the consumer's likelihood of recommending the hotel (Barsky and Frame, 2009). However, prior studies on management responses mostly focus on the stand-alone impact of management response (e.g., Park and Allen, 2013; Ye et al., 2010), shedding little light on the interaction between consumer reviews and management responses. Because of the simultaneous engagement of consumers and hoteliers on social media, consumers' purchase decisions are often influenced by both user-generated reviews and management responses (Levy et al., 2013). Without considering the interrelated effect of consumer reviews and management responses, the literature lacks a rigorous quantification of the value of online communication between consumers and marketers on social media platforms. Therefore, it is strategically important for hotel managers to understand how management responses can moderate the influence of consumer reviews on hotel performance. However, how to use management responses to address consumer reviews and maximize hotel performance remains a less researched question in the hospitality industry (Kim et al., 2010).

Our study aims to address the knowledge gaps in hospitality literature by presenting a rigorous quantification of the economic value of online reviews on hotel performance in the current social media context where consumer reviews and management responses coexist. Our research questions are two-fold: (1) What is the effect of consumer reviews on hotel performance and (2) How do management responses moderate the relationship between consumer reviews and hotel performance? To answer our research questions, we collect time-series consumer reviews and management responses of 843 hotels on TripAdvisor.com on a daily basis, and match the data with the quarterly hotel performance information provided by a local revenue controller office at a disaggregated individual hotel level. Our econometric specification models hotel performance as a function of consumer review factors and management responses, controlling for relevant hotel characteristics such as hotel age, size, and quality segmentation.

2. Background and hypotheses

2.1. Electronic word-of-mouth

Litvin et al. (2008) define eWOM as all informal communications related to the usage, characteristics, or sellers of particular goods

and services initiated by consumers through Internet-based technology. Bronner and de Hoog (2010) state that eWOM refers to the consumer comments posted on the Internet about products and services. eWOM includes a variety of media forms, such as online reviews, online recommendations and online opinions (Cantalops and Salvi, 2014). The most prevalent example is online consumer reviews (Chatterjee, 2001), which are considered more effective in influencing consumer behavior than traditional advertising (Yang and Mai, 2010), information provided by product providers, or promotion messages of third-party websites (Gretzel and Yoo, 2008; Zhang et al., 2010b). Studies find that online consumer reviews play a key role in influencing the product performance in the hospitality industry (Cheng and Loi, 2014). For example, Ye et al. (2011) show that a 10% increase in traveler review ratings can boost hotel online bookings by more than 5%. Zhang et al. (2011) find that an incremental star (on a 5-point scale) in customer rating of hotel rooms is linked to a 21% increase in price in New York. Öğüt and Taş (2012) report that a 1% increase in online customer ratings increases sales per room up to 2.68% in Paris and up to 2.62% in London.

Despite the importance of eWOM, Godes and Mayzlin (2004) point out the difficulty in measuring eWOM given its various forms on the Internet. For online consumer reviews, it is generally agreed that three review-related factors are important, i.e., the valence of reviews (Chevalier and Mayzlin, 2006; Chintagunta et al., 2010; Clemons et al., 2006; Cui et al., 2012; Dellarocas et al., 2007; Duan et al., 2008; Liu, 2006; Sun, 2012; Tirunillai and Tellis, 2012; Wu et al., 2013; Ye et al., 2011; Zhang et al., 2010b, 2013; Zhu and Zhang, 2010), the volume of reviews (Chevalier and Mayzlin, 2006; Chintagunta et al., 2010; Cui et al., 2012; Dellarocas et al., 2007; Duan et al., 2008; Liu, 2006; Wu et al., 2013; Zhu and Zhang, 2010), and the variation of reviews (Chintagunta et al., 2010; Godes and Mayzlin, 2004; Markopoulos and Clemons, 2013; Park and Park, 2013; Sun, 2012; Wu et al., 2013; Ye et al., 2009; Zhu and Zhang, 2010). An average rating measure most frequently represents valence. Statistical variation measures dispersion in ratings and the number of posted ratings represents volume most commonly (Lee, 2012). Jang et al. (2012) further suggest that consumers often pay close attention to these three factors when referring to online product reviews in their purchase decision process. To enhance the readability of review information, many leading product review websites such as TripAdvisor.com present not only valence and volume of reviews, but also the distribution of ratings showing the dispersion of consumer ratings from the average (see Fig. 1). Following prior research, we use review valence, review volume, and review variation as measures of consumer reviews in this study.

2.2. eWOM and business performance

As consumers post their recommendations and opinions about a product on social media, they attempt to persuade other consumers to see their point of view and thus influence their decision-making (Chu, 2009). Previous research has found that the valence of consumer reviews has a statistically positive relationship with product sales. For example, Moe and Trusov (2011) demonstrate that consumers' buying behavior is significantly affected by previous positive ratings from other users. Chevalier and Mayzlin (2006) and Sun (2012) find that online consumer ratings significantly influence book sales and that a high average rating on Amazon.com drives book sales. Similarly, online ratings have an impact on movie sales (Dellarocas et al., 2007) and beer sales (Clemons et al., 2006). In the context of hospitality, Ye et al. (2009) find a significantly positive relationship between online consumer ratings and hotel performance. Verma et al. (2012) report that customer ratings have a strong positive effect on customers' willingness to book a hotel. Öğüt and Taş (2012) suggest that a higher customer

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