



Tourists' willingness to pay for an accommodation: The effect of eWOM and internal reference price

Marta Nieto-García*, Pablo A. Muñoz-Gallego, Óscar González-Benito

Instituto Multidisciplinar de Empresa, Universidad de Salamanca, Campus Miguel de Unamuno, Edificio FES, 37007, Salamanca, Spain

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ABSTRACT

Understanding the determinants of consumers' willingness to pay (WTP) is an important challenge especially for practitioners. This study evaluates the effect of external information (eWOM valence and volume) and internal information (internal reference price) on consumers' WTP for an accommodation. The results of an online experiment ($n = 766$) show a direct effect of valence on WTP which is strengthened by both volume and the internal reference price. Consumers with high reference prices are more sensitive to the effect of an increase in valence. Moreover, internal reference price has a non-linear influence on WTP. The findings suggest the relevant role of eWOM as well as internal reference price in determining consumers' WTP. The inclusion of these two variables in dynamic pricing strategies could lead to greater benefits for hospitality managers.

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1. Introduction

Online consumer reviews, which represents a common form of electronic word of mouth (eWOM), are widely trusted sources of information (Nielsen, 2015). Reviews and ratings have become especially relevant in service contexts (Bansal and Voyer, 2000), due to their intrinsic intangibility and valuation challenges. Hospitality sector is among the most influenced by eWOM (Cantalops and Salvi, 2014). Online reviews affect hotel sales (Ögüt and Onur Taş, 2012; Ye et al., 2009) and hotel performance (Xie et al., 2014). Consumers thus rely on online reviews to gather information about hotels (Aye et al., 2013; Filieri and McLeay, 2014; Liu and Park, 2015; Miao et al., 2011; Sparks et al., 2013). Studies have investigated several topics including booking intentions (Ladhari and Michaud, 2015; Mauri and Minazzi, 2013; Miao et al., 2011; Sparks and Browning, 2011), hotel choice (Noone and McGuire, 2013b; Vermeulen and Seegers, 2009; Viglia et al., 2014) and even the trade-off between online reviews and hotel prices when choosing accommodations (Book et al., 2015; Noone and McGuire, 2013a; Noone and McGuire, 2013b). Abrate and Viglia (2016) note that in dynamic pricing contexts, online reviews gain greater importance relative to traditional star ratings. Despite its relevance to hospitality operators though, consumer willingness to pay (WTP)

for tourism accommodations in the presence of eWOM remains undetermined.

In addition to addressing this research gap, we include an individual variable that has not been studied previously in eWOM settings, namely, consumers' internal reference price (IRP). It results from recall of the prices that consumers have seen in past purchase occasions (Rajendran and Tellis, 1994) and it strongly influences consumers' purchase decisions (Mazumdar et al., 2005). Therefore, it seems logical to predict that it affects consumers' WTP. The reference price concept is especially relevant in sectors characterized by price instability (Winer, 1986), such as the hospitality sector (Viglia et al., 2016). That is, understanding the effects of reference price on WTP and its interaction with eWOM may be particularly useful for hospitality managers.

With this study, we therefore seek to analyze two main determinants of consumer WTP. First, we explore how external information—eWOM valence and volume—influence consumer WTP, testing the moderating role of eWOM volume. Second, we consider the direct and moderating effects of internal reference price on WTP. These two main drivers of WTP have not, to the best of our knowledge, been studied together before. In turn, our findings have useful implications for hospitality industry. In this sector, pricing decisions are evolving toward dynamic pricing, which allows hospitality managers to adjust their prices in line with different variables (Abrate and Viglia, 2016). Our results suggest that an adequate online pricing strategy, aligned with consumers' WTP, should consider both review statistics and the prices recently paid by consumers.

* Corresponding author.

E-mail addresses: marta1905@usal.es (M. Nieto-García), pmunoz@usal.es (P.A. Muñoz-Gallego), oscargb@usal.es (Ó. González-Benito).

In the next sections, we describe our conceptual background for eWOM, WTP and reference price, as well as the methodology and results of the empirical study. Finally, we offer some conclusions, limitations, and suggestions for further research.

2. Conceptual background

2.1. Electronic word of mouth (eWOM)

Word of mouth, including its electronic form, is essential to decision making (Chevalier and Mayzlin, 2006; Duan et al., 2008). Electronic word of mouth is defined as any positive or negative statement made by potential, current or former consumers; about a product or a company, which is useful for a multitude of people and institutions via the Internet (Hennig-Thurau et al., 2003). User-generated reviews and ratings are accessible and prevalent forms of eWOM (Chatterjee, 2001). According to information adoption theories, consumers modify their behavior in line with the suggestions in online reviews (Cheung et al., 2008; Filieri and McLeay, 2014). We seek to deepen this view by analyzing how eWOM might cause consumers to change their willingness to pay.

Previous literature identifies the impact of eWOM on firm-related variables such as profits and sales (Chevalier and Mayzlin, 2006; Yang et al., 2012; Zhu and Zhang, 2010), as well as consumer-related variables such as product attitude (Park et al., 2007), opinion about the product (Jeong et al., 2015; Lee and Youn, 2009), purchase intentions (Mauri and Minazzi, 2013; Park et al., 2007), product considerations (Gupta and Harris, 2010; Vermeulen and Seegers, 2009), and product choice (Kostyra et al., 2016; Senecal and Nantel, 2004). Despite its importance to firms though (Chaudhuri and Ligas, 2009), consumer willingness to pay has not received substantial research attention (Wu and Gaytán, 2013; Wu et al., 2013; Wu and Wu, 2016).

The same tendency occurs in the hospitality sector. According to Cantalalops and Salvi (2014) who review research on eWOM and hotels, the factors associated with consumer sensitivity to price represent a notable research opportunity. Using a hedonic pricing model, Schamel (2012) identifies popularity ratings as an important determinant of hotel room prices. With this study, we conduct an experiment to analyze the impact of two eWOM statistics (valence and volume) on consumers' WTP, after accounting for the effect of IRP. A fuller understanding of the eWOM–WTP relationship in hospitality settings thus should have important implications for companies' pricing decisions—an important area of online marketing research that demands more attention (Grewal et al., 2010).

2.2. The influence of eWOM on willingness to pay (WTP)

Willingness to pay (WTP) denotes the maximum price the consumer agrees to pay for a given quantity of a product or service (Cameron and James, 1987; Krishna, 1991) and reflects the value that the consumer perceives (Kotler and Levy, 1969). For the selling firm, knowledge about consumers' WTP is essential to pricing decisions (Wertenbroch and Skiera, 2002).

Erdem et al. (2002) propose that credibility is an antecedent of consumer price sensitivity, because it reduces information costs and perceived risk but enhances perceived quality. eWOM is a credible source of information for consumers because it is independent of marketers' selling intents (Lee and Youn, 2009). As Pavlou and Dimoka (2006) show, textual feedback comments create price premiums for reputable sellers by engendering buyers' trust in the sellers' benevolence and credibility. Huang et al. (2013) also indicate that online information about a product increases the price premium by reducing price consciousness and increasing trust.

Opinions from others customers can provide information about the quality and value of a product (Zhu and Zhang, 2010). User-generated content affects perceived value (Noone and McGuire, 2013a; Gruen et al., 2006) by providing consumers with a credible indication of what they can expect to receive for the price they pay (Chang and Wildt, 1994). Considering its capacity to influence perceived value, we posit that positive eWOM (reviews and ratings) increase the WTP of potential customers who have been exposed to it. Evidence of this relationship comes from Kostyra et al. (2016), who analyze the effect of online reviews on product choice and include price in their experiment. They observe that average willingness to pay for a one-star increase in online customer reviews is €48.96 for an eBook reader.

Three recent studies investigate the impact of review statistics on WTP (Wu and Gaytán, 2013; Wu et al., 2013; Wu and Wu, 2016). These studies take a risk perspective (i.e., decision theory under uncertainty) to determine the relationship between online reviews (valence and volume) and consumer WTP. Only Wu and Wu (2016) account for the interaction between valence –average product rating- and volume –number of ratings-. As in Kostyra et al. (2016), they found that volume moderates the effect of valence on WTP. Studying this relationship in the service context of the tourism industry, applying an experiment method and including the measure of internal reference prices, represents a novel approach that enables us to address several pertinent questions:

- Is the effect of valence greater if a tourism accommodation attracts more comments?
- Do consumers with high IRP express the same WTP as those with low IRP?
- Does IRP moderate the impact of valence on WTP?

2.2.1. eWOM valence

As the average rating of online reviews, eWOM valence represents average customer satisfaction (Chintagunta et al., 2010). This extrinsic cue therefore has a significant influence on the pre-purchase evaluations of a product or service. A positively valenced message increases consumer preferences for the product (Basuroy et al., 2003; Chevalier and Mayzlin, 2006; Duan et al., 2008; Liu, 2006), yet as Lee et al. (2008) observe, as the proportion of negative online consumer reviews increases, negative consumer attitudes tend to increase. In addition, literature about auctions convincingly shows that positive ratings increase price premiums but negative ones reduce them (Houser and Wooders, 2006). These considerations support the argument that eWOM valence is a cue of what consumers will receive, such that it may influence their perceived value and therefore their WTP.

In the tourism industry, ratings offer strong predictors of travelers' adoption of information (Filieri and McLeay, 2014). Positive online reviews improve hotel consideration (Vermeulen and Seegers, 2009) and purchase intentions (Ladhari and Michaud, 2015; Mauri and Minazzi, 2013). Moreover, Yacouel and Fleischer (2012) provide empirical evidence that information supplied by prior guests generates a price premium for hotels with good reputations. In their research on hotel choice Jang et al. (2012) also find that the monetary value of a unit-increase in valence is positive. Therefore, we propose a positive relationship between eWOM valence and WTP.

H1. The valence of eWOM positively influences consumers' willingness to pay.

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