



The Impact of User Review Volume on Consumers' Willingness-to-Pay: A Consumer Uncertainty Perspective

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Abstract

Numerous studies have investigated the impact of review volume and review variance on product price, but their findings are mixed. The perspective of mismatch cost framework (e.g., Sun 2012) argues that, at the market level, the impact of review variance on product price varies with review valence due to diverse product tastes *across* individuals. The perspective of classic expected utility framework (e.g., Wu and Ayala Gaytán 2013; Wu et al. 2013) further argues that heterogeneous risk attitudes *across* individuals directly drives the varying impact of both review volume and variance on willingness-to-pay, regardless of review valence. Although both frameworks have gained good empirical support, neither of them probed whether the impact of review volume or review variance varies *within* an individual.

We extend the current research by focusing on the varying impact of review volume on consumers' willingness-to-pay. Combining economic and behavioral theories of decisions under uncertainty, we argue that consumers' preferences of uncertainty can vary both *across* and *within* individuals. The extended framework thus concludes that the impact of review volume on consumers' willingness-to-pay not only varies across individuals with different types of uncertainty preferences, but may also change with review valence within an individual of some types of uncertainty preferences. The framework is tested using an experimental study and an empirical study. Results from both studies provide good support for this broader framework.

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Introduction

Online user reviews are important for both online and offline businesses. Consumers trust online reviews more than advertisements (Nielsen 2012) and rely on online reviews when choosing products (Nielsen 2010) and sellers (Anderson 2014). Among all the information that websites provide for review purposes, statistics are the most prominent and often the first that consumers examine. Key statistics include review volume (the number of reviews a product or a seller receives), review valence (the average review rating), and review variance (usually shown through the distribution of reviews). These statistics serve as a tool for consumers to reduce the burden of

information search and decision making (Jang, Prasad, and Ratchford 2012), and hence significantly impact a company's marketing performance. High review volume can increase the exposure of a business or product offering. For example, Yelp uses review statistics to rank businesses in its search results (Holloway 2011). High review valence also increases product consideration (Jang, Prasad, and Ratchford 2012). On average, Google ads with seller ratings get a 17% higher click-through rate than the same ads without review ratings (Friedman 2011).

To date, marketing researchers have invested great effort in studying the impact of review statistics; however, their findings were inconsistent. For example, while review valence is known to positively affect product price and sales (e.g., Chevalier and Mayzlin 2006; Moe and Trusov 2011; Wu and Ayala Gaytán 2013), review volume and variance can have a positive, insignificant, or even negative influence on marketing outcomes (e.g.,

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Basuroy, Chatterjee, and Ravid 2003; Chintagunta, Gopinath, and Venkataraman 2010; Clemons, Gao, and Hitt 2006; Zhu and Zhang 2010). A key reason for such contradictory findings is that most of the studies are based on the assumption that online reviews have equal impact on different consumers (King, Racherla, and Bush 2014). While it is important to design marketing strategies that leverage online reviews (Simonson and Rosen 2014), companies must consider consumer heterogeneity in processing review statistics to fully exploit online reviews. As King, Racherla, and Bush (2014) proposed, future research needs to identify and quantify the disaggregate effects of online word-of-mouth. To answer this research call, we conducted a study to unveil the fundamental role of review statistics in consumers' willingness-to-pay (WTP) decisions; to investigate consumer heterogeneity in processing review statistics; and to quantify the varying consumer preferences toward review statistics.

We organize our paper as follows. First, we provide background on consumers' preferences regarding online reviews and describe our contributions to the current literature. Second, we introduce our conceptual framework and develop the hypotheses. Third, we test the hypotheses using two studies: first, an experimental study, and then an empirical study. Accompanying study results are presented in each section. Last, we discuss the managerial implications and limitations of the current research.

Related Literature

Two streams of research motivate our work: research that examines individual preference regarding review statistics, and research that examines interactions among review statistics at the aggregate level. Based on expected utility theory, Wu and Ayala Gaytán (2013) and Wu et al. (2013) suggest that review volume, review valence, and review variance independently impact a consumer's judgment of purchase risk. At the individual level, each consumer has a consistent preference regarding review volume and review variance, but such preference varies from one consumer to another based on each consumer's risk attitude. Using data from eBay.com and Amazon.com, these authors find that high review volume or low review variance positively affect consumer WTP when consumers are risk-averse, but negatively affect WTP when consumers are risk-seeking; for risk-neutral consumers, neither volume nor variance has an impact on WTP.

These studies explore the theoretical foundation of consumer heterogeneity in processing online reviews, but the framework fails to explain an important observation by studies that report interactions among review statistics at the aggregate level. For example, based on mismatch cost, Sun (2012) proposes a model that assumes consumers are risk-neutral with heterogeneous product tastes. Hence, at the individual level, consumers have the same attitude toward review variance; but at the aggregate level, review valence moderates the influence of review variance due to cross-individual differences in product taste. Sun (2012) finds that on Amazon.com, a larger review variance can increase book sales if (and only if) review valence is small. Some experimental

studies also suggest the existence of interactions among review statistics at the aggregate level. For example, Khare, Labrecque, and Asare (2011) report a significant main effect of review valence and an interaction between review valence and volume. The impact of review volume on consumer preference is positive when review valence is high, and negative when valence is low.

In this study, we seek to develop a comprehensive framework that can capture the interactive effects of review valence, volume, and variance at the individual level while accounting for consumers' varying preferences as to review statistics. Our framework differs from previous research in several ways. First, our framework shows that the interactions among valence, volume, and variance can occur not only at the aggregate level—as observed by studies such as Sun (2012) and Khare, Labrecque, and Asare (2011)—but also at the individual level, an effect unaddressed in the literature. Second, Sun's mismatch cost theory assumes that consumers' product tastes are uniformly distributed. This assumption may be appropriate for product preference, but it is overly strong for evaluating the seller. Similar to Wu and Ayala Gaytán (2013) and Wu et al. (2013), our framework is built on theories of decisions under uncertainty, and hence can be applied to both product and seller reviews. Last, our framework allows for, but does not require, consistent risk attitude. Unlike Wu and Ayala Gaytán (2013) and Wu et al. (2013), we investigate inconsistent uncertainty preferences, an important characteristic not yet examined in the literature of online user reviews.

We study how consumers use statistics in online reviews to form their WTP toward different online sellers. Similar to Miller et al. (2011), we view a consumer's WTP as a point measure and define it as the maximum price a consumer is willing to pay an online seller for a product, given the option of buying the same product at a fixed price from an offline retailer with no transaction risk. Because purchases from online sellers are associated with high transaction risks, consumers are willing to compensate sellers in order to reduce transaction risks, according to Ba and Pavlou (2002).

We focus on WTP because the impact of user reviews on price is inconclusive and a fuller understanding of this relationship contains direct implications for enhancing targeted pricing and promotion strategies—an important area of research in online marketing that calls for more attention (Grewal et al. 2010). We attend to seller reviews because consumers in online markets discern more uncertainty about sellers than about products (Wu et al. 2013). While consumers can obtain information on product quality from multiple sources (e.g., product commercials and offline retailers), they must obtain information on online seller quality (e.g., eBay and Amazon sellers) primarily—if not entirely—from user reviews. This singular characteristic of seller reviews helps us isolate the impact of online user reviews.

We test our theoretical framework using two methods: an experimental study with participants, and an empirical study using data from eBay.com. Results reveal that the impact of review statistics (e.g., review volume) on consumer WTP varies across consumers, suggesting that online sellers can incorporate review statistics and consumer characteristics into pricing strategies at segment or individual levels.

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