



The Effectiveness of E-tailers' Communication Practices in Stimulating Sales of Niche versus Popular Products

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Abstract

Using sales data from 30,008 books from Amazon.de, this article studies the effects of four distinct online communication practices that e-tailers increasingly use: presenting product networks (recommender systems), social features (electronic word of mouth and various types of user-generated content), free trials, and vivid content. These practices vary greatly in their effectiveness in influencing consumers' purchase decisions. The author also provides insights into the sales frequencies of popular versus niche products, in response to the selective use of these communication practices. Long-tail theory argues that consumers are particularly attracted to buying niche products, because these products match their personal preferences better than mainstream products do. In contrast, superstar theory predicts increased sales frequencies for popular goods. However, the results from this large sample reveal that *both* popular and niche products gain sales. The findings specify how different communication practices relatively and differentially affect sales of popular and niche products, which has notable implications for managers' selective uses of these tools.

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Introduction

To reduce purchase uncertainty when faced with the intangible, experiential nature of e-commerce (Dowling and Staelin 1994; Nelson 1970, 1974; Weathers, Sharma, and Wood 2007), consumers search for information relevant to their purchase decision (King and Balasubramanian 1994; Monga and Saini 2009). By implementing communication tools that provide such information, e-tailers can significantly decrease shoppers' search costs and direct their attention to goods they should particularly like (Grewal and Levy 2009; Pan and Zhang 2011; Pauwels et al. 2011). For example, e-tailers might offer *passive information* through automated recommender systems to increase the ease with consumers can find products. They also might facilitate consumers' *active* searches with free trials or vivid content. By leveraging user-generated content, e-tailers combine *passive* and *active* tools (Brynjolfsson, Hu, and Simester 2006, 2011). However, research provides little evidence of the relative effectiveness of these various communication practices in terms of

influencing consumer choices of both popular products (i.e., bestsellers) and less popular ones (i.e., niche products).

Long-tail theory assumes that reducing search costs is particularly effective for increasing demand for niche products (Anderson 2006; Kumar, Smith, and Telang 2011), because consumers can locate products that match their preferences better than mainstream products do. On a graph, products would display declining sales frequencies (on the y-axis) as they move from left to right along an x-axis that denotes the range of products from popular offerings on the left to niche products on the right (hereafter, the "sales curve"). If this sales curve is long tailed, the top 20 percent of most frequently sold items represent less than 50 percent of sales (Anderson 2006). That is, this theory predicts a move away from the classic power law or Pareto form of product sales frequency, in which 20 percent of products account for 80 percent of sales. As sales between popular and niche products even out, heterogeneity in consumption patterns increases (Brynjolfsson, Hu, and Simester 2011; Hervas-Drane 2007). In contrast, superstar theory (Adler 1985; Rosen 1981) assumes that all consumers prefer the most talented performers and that better technology allows these performers to be available everywhere, so it predicts a shift toward popular products and increased consumption homogeneity (Elberse 2008).

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A sound understanding of how communication strategies actually affect consumer choices, in line with which theory, thus could help e-tailers better stimulate sales (Weathers, Sharma, and Wood 2007).

In this study, I explore the relative effectiveness of four distinct passive and active e-tailer communication practices—presenting product networks (recommender systems), social features (user-generated content), free trials, and vivid content—for stimulating sales across the sales curve, from popular to niche products. I also consider how these practices interact. Furthermore, I investigate the implications of selective uses of the different communication practices for increasing the sales frequencies of popular versus niche products. With sales data about 30,008 books from Amazon.de, I determine that the effectiveness of the four communication practices and their various combinations varies greatly in influencing purchase decisions for popular versus niche products. In particular, *both* popular and niche products can gain sales from the selective use of the four practices.¹ Accordingly, this study makes a theoretical contribution, by revealing the relative impact and interplay of four communication practices that previously have not been studied together. In terms of its managerial implications, the results suggest integrating communication and assortment strategies to take advantage of consumer responsiveness. Managers can use these findings to select, combine, and focus their communication practices, as well as adapt these practices to the various parts of the sales curve.

Literature Review and Conceptual Framework

Passive tools such as *recommender systems* (Anderson 2006; Ansari, Essegai, and Kohli 2000; Chernev 2006; Goldenberg, Oestreicher-Singer, and Reichman 2012; Häubl and Trifts 2000; Oestreicher-Singer and Sundararajan 2012; Van Herpen and Pieters 2007) use a consumer's revealed preferences from past purchases or even page views to identify new products that should be of interest to that particular consumer. Senecal and Nantel (2004) show experimentally that online recommendations influence choices, and electronic recommendations can be even more influential than recommendations from other consumers.

Active tools instead allow consumers to assess products in which they know they might be interested (Brynjolfsson, Hu, and Simester 2006), such as samples of book pages (Amazon provides free trials with its “Search Inside” function) and vivid content (e.g., information on book covers). Cases (2002) documents that free trial ranks highly among the potential risk-reduction strategies that consumers consider (Bawa and Shoemaker 2004; Bettinger, Dawson, and Wales 1979). Moreover, vividness, or the extent to which sensory information available online can compensate for a lack of haptic information

and increase confidence in product evaluations, recently has emerged as a central purchase criterion (Peck and Childers 2003; Weathers, Sharma, and Wood 2007).

Consumer search also might be facilitated by combining active and passive search tools through *user-generated content*, such as eWOM in the form of customer product reviews, online communities, and product-focused blogs (Brynjolfsson, Hu, and Simester 2006). These tools enable consumers to share their opinions and consumption experiences (Chen, Wu, and Yoon 2004; Goldenberg, Oestreicher-Singer, and Reichman 2012). Previous studies cite the significance of such social exchanges for stimulating demand online (e.g., Brynjolfsson, Hu, and Simester 2011; Duan, Gu, and Whinston 2008; Elberse and Oberholzer-Gee 2006; Gupta and Harris 2009; Oestreicher-Singer and Sundararajan 2012).

For e-tailers, the use of these practices also has commercial consequences. For example, recommender systems could reduce the sales frequency of popular goods if recommendations include niche products and cause sales to migrate from popular to niche products (Chen, Wu, and Yoon 2004; Oestreicher-Singer and Sundararajan 2012). Alternatively, such systems could be tuned specifically to ensure sales gains for popular products (Fleder and Hosanagar 2009; Hervas-Drane 2007). Likewise, social influence may increase the appeal of fads and blockbusters, shifting sales toward popular goods; however, people also could use such exchanges to develop idiosyncratic tastes, leading to increased segmentation and preferences for niche products (Brynjolfsson, Hu, and Simester 2010). User-generated online content in particular might influence the sales of niche products, in that information provided by consumers rather than the e-tailer often appears more trustworthy for unknown products and is the only source of information available for some niche products (Chevalier and Mayzlin 2006; Tucker and Zhang 2011).

Overall, I expect that niche products in particular will gain sales from these communication practices. The underlying rationale stems from the greater uncertainty about whether niche products fit consumer expectations, as well as the considerably less external information available about those niche products, compared with popular products. For example, popular products typically gain media coverage in magazines and television shows, receive more exposure in book stores, have higher advertising budgets, enjoy greater awareness among other consumers, and so on—all of which reassures consumers that a popular product is “safe” to buy. Therefore, niche products should benefit relatively more from the use of the four communication practices, because e-tailers' communication tools are often the only information sources about niche products available to consumers.

Hypotheses

Passive Online Communication Tools

Automated recommendations increase the amount of customer traffic to a particular product's page (Senecal and Nantel 2004). Consequently, goods that receive such recommendations

¹ Note that the power law form of the sales curve stays the same: Formerly niche products exchange places with products of moderate popularity along the sales curve if certain communication practices stimulate more sales of the formerly niche items.

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