Evidence of the Influence and Value of Customer Reviews for Purchase Decisions

Now, more than ever, consumers have more control over how they share their brand experiences — good or bad — with the global audience. Online customer reviews (OCRs) are becoming increasingly important — various surveys report that consumers trust recommendations or opinions from other consumers more than traditional forms of advertising such as commercials or product placements on mass media. Given the importance of OCRs, the Spiegel Research Center (SRC) conducted a series of studies to help companies understand the effects of reviews on consumers and help marketers better manage OCRs.

MODEL TO ASSESS IMPACT OF REVIEWS ON A BRAND AND CATEGORY.
From “The value of online customer reviews” (2016b)

Askalidis and Malthouse (2016b) devised a method to assess the overall value of reviews to a brand. The method studies how the conversion rate changes as more reviews are added to a brand. The difference between the conversion rate with no reviews and the conversion rate with a large number of reviews is the value of reviews. The overall conversion rate is low when there are no reviews and increases 270% as the number of reviews increase (see graphics p.31).

TAKEAWAY: Forecast the impact of reviews on sales.

REVIEWS HAVE A GREATER EFFECT WHEN THERE IS A HIGHER VOLUME.

Additionally, Masłowska et al. (2016) expect for the average star rating (valence) of reviews to have a greater effect when there are many reviews than when there are few for several reasons: (1) it could signal to the prospective buyer that the product is popular; (2) it shows that other people who have purchased the product care enough to make the effort to write a review; (3) the volume may indicate reliability and trustworthiness; or (4) consumers will rely on the summary valence measure rather than reading individual reviews (see tables on p.31).

TAKEAWAY: Do not filter out negative reviews, as they may positively influence sales.

OCR HAVE A GREATER EFFECT ON CUSTOMERS WHO CHOOSE TO READ THEM.

According to Masłowska et al. (2016), there are several reasons why a customer may choose to read reviews. Many times, it reflects the consumer’s uncertainty about the product. Someone who does not choose to read reviews either does not trust them or does not need additional information, perhaps because they have purchased the product before. Either way, we would expect the valence of the reviews to have a stronger effect on someone who chooses to read the review.

Kim et al. (2016) focuses on situations where consumers are actually reading reviews and finding the “right” length of review. The “right” length of a review probably depends on the category, where consumers may be willing to read longer reviews for a high-involvement purchase (such as a washing machine) but less willing to read a long review for a low-involvement purchase (such as shampoo).

TAKEAWAY: Understand the circumstances in which reviews have uncommonly high and low influence on purchases.

THERE’S A GREATER IMPACT FROM ACTUAL, VERIFIED BUYERS.
From “Understanding and overcoming biases in customer reviews” (2016a)

Askalidis and Malthouse (2016a) explore the difference between verified buyers and anonymous reviewers. Nearly all reviews from verified buyers were in response to an email sent to customer after purchase, where the customer can submit a rating with a single click. Anonymous reviewers must find the webpage for a particular product and create a login to write a review. Depending on the retailer, the valence of reviews from verified buyers is between 0.5 and 1 star higher than from anonymous reviewers. An explanation for this finding is the self-selection bias — those who had a negative experience are more likely to invest the effort to find the right page to write the review, while responding to an email is much easier and includes a more representative set of customers.

TAKEAWAY: Consider incentivizing reviewers to write reviews to obtain more reviews from verified buyers.

Sources:
- Askalidis and Malthouse (2016a), Understanding and overcoming biases in customer reviews, under review at Decision support systems.
- Askalidis and Malthouse (2016b), The value of online customer reviews, accepted at ACM Conference on Recommender Systems.
- Kim, Malthouse and Malthouse (2016), Disentangling the Effect of Online Product Review Features on Purchase Behavior, ICORIA, Ljubljana.

AUTHORS BIOS p 39.
Effect of Number of Displayed Reviews on the Conversion Rate

The Effects of Average Star Ratings on Purchase Behaviours
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“Telling a Memorable Story with Your Data” p 20.

“Personalized Marketing @ Scale” p 24.

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“A Decoding the Millennial Enigma”

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