

PEER RATINGS, BRAND-NAME EFFECT AND WILLINGNESS TO PAY IN ELECTRONIC COMMERCE

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ABSTRACT

In electronic commerce (E-Commerce), buyers often lack sufficient product information as they are not able to directly examine the product. Thus, signals on the quality of the product can play an important role in determining buyers' willingness to pay for the goods (Melnik and Alm, 2003). In particular, buyers may rely on online reviews or ratings by their peers to gauge product performance, quality, usability, and reliability before making purchase decisions. Despite the conventional wisdom that better product ratings contribute to greater perceived value, little is known about the extent to which peer ratings may impact prospective buyers' willingness to pay in E-Commerce.

In the absence of quality related information, on the other hand, buyers may also use brand name as a proxy for otherwise unobservable product quality. Prior studies have suggested that brand-name effect (or *make effect*) is significant (Dodds, Monroe and Grewal, 1991; Gandal, 1994; Brynjolfsson and Kemerer, 1996). In addition, buyers may be willing to pay more for a particular brand, all else equal, because of the *prestige* brought about by the brand. However, some cast doubt on the importance of brand-name effect, especially in the market for consumer electronics (Holbrook, 1991). Nonetheless, there has been little empirical investigation to quantify brand-name effect on buyers' willingness to pay.

Using an experimental design that emulates an E-Commerce environment, this study assesses the impact of peer ratings and brand on prospective buyers' perceived product value and thus willingness to pay for laptop computers. Two seemingly identical laptop computers (in terms of look, style, feature set and performance), with variations in peer ratings and brand names, were presented online to subjects. Once a subject logged on, he or she was randomly assigned to one of the four instruments, and was asked to assess product valuation and to make purchase decisions. The impact of peer ratings and brand name on subjects' willingness to pay is assessed. Additional factors likely to influence product valuation, such as personalization and customization, are also examined, although a prior study concludes that consumers are not willing to pay more for the additional benefits they gain from customization (Jiang, 2002).

The results of this study offer insights into consumers' decision making in E-Commerce settings. In addition, this research leads to important managerial implications on product design, management and pricing, as well as customer relationship management. Ongoing research compares the effectiveness of peer ratings in hard numbers vs. story-embedded reviews by consumers.