



## Brand equity dilution through negative online word-of-mouth communication

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### ABSTRACT

In this paper, we examine effects of negative online product reviews, a specific type of word-of-mouth communication, on consumer-based brand equity in terms of brand equity dilution. The results of our empirical study provide support for the assumed detrimental effect of negative online product reviews on consumer-based brand equity.

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### 1. Introduction

Word-of-mouth (WOM) communication is generally acknowledged to play a considerable role in influencing and forming consumer attitudes and behavioral intentions (e.g., Chatterjee, 2001; Chevalier and Mayzlin, 2006; Herr et al., 1991; Kiecker and Cowles, 2001; Sen and Lerman, 2007; Smith and Vogt, 1995; Weinberger and Dillon, 1980; Xia and Bechwati, 2008). Research has shown that WOM communication is more influential than communication through other sources such as editorial recommendations or advertisements (e.g., Bickart and Schindler, 2001; Smith et al., 2005; Trusov et al., 2009) because it is perceived to provide comparatively reliable information (Gruen et al., 2006). Consequently, this type of communication is considered as having a great persuasiveness through higher perceived credibility and trustworthiness (e.g., Chatterjee, 2001; Godes and Mayzlin, 2004; Mayzlin, 2006).

Whereas WOM communication initially referred to the idea of person-to-person conversation between consumers about a product (Chatterjee, 2001; Sen and Lerman, 2007), the worldwide spread of the Internet brought up a less personal but more ubiquitous form of WOM communication, the so-called online WOM communication (e.g., Brown et al., 2007; Chatterjee, 2001; Davis and Khazanchi, 2008; Godes and Mayzlin, 2004; Kiecker and Cowles, 2001; Xia and Bechwati, 2008). This new type of WOM communication has become an important venue for consumer opinions (Bickart and Schindler, 2001; Godes and Mayzlin, 2004; Hennig-Thurau et al., 2004; Mayzlin, 2006) and it is assumed to be even more effective than WOM

communication in the offline world due to its greater accessibility and high reach (Chatterjee, 2001). Product reviews that consumers post on the Internet constitute one of the most important forms of online WOM communication (Schindler and Bickart, 2005; Sen and Lerman, 2007), and for consumers it is increasingly common to look for online product reviews when gathering pre-purchase product information (Adjei et al., 2009; Zhu and Zhang, 2010) and forming purchase intentions (Zhang and Tran, 2009). Based on the argument that especially vividly presented WOM communication has a strong impact on product judgments (Herr et al., 1991), we argue that product reviews that are posted in such a vivid and interactive medium as the Internet might have strong effects on consumer judgments.

As both positive and negative product reviews can be found on Internet platforms, it is important to differentiate between effects of positive and negative WOM communication. Whereas positive online product reviews that contain favorable experiences with particular products and buying recommendations for these products are beneficial from the company perspective, negative product reviews that report very disappointing experiences about particular products (Luo, 2009) can be very harmful to companies. Thus, it is especially important to examine effects of negative product reviews. The following arguments support this assumption. Consumers who visit opinion platforms are rather likely to be faced with negative product reviews because dissatisfied people are much more interested in sharing their negative experiences with as many people as possible than satisfied people are interested in talking or writing about positive experiences (Chatterjee, 2001). Furthermore, consumers tend to specifically look for negative reviews because negative information is considered as being more diagnostic and informative than positive or neutral information and thus is weighted more heavily in judgments than is positive information (Herr et al., 1991). Thus, negative compared to positive online WOM communication is not only harmful for companies, it even has stronger effects on

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consumer response variables (Park and Lee, 2009). Therefore the focus of this paper will be on effects of negative online product reviews.

In our study, we consider the situation where consumers have the intention to purchase a specific product and visit opinion platforms that display product reviews to learn about other consumers' opinions on the product they are interested in before making the final purchase decision. We only examine product reviews that are posted on opinion platforms, which are independent of producers or retailers because this type of platform is the most widely used form of online WOM communication (Hennig-Thurau et al., 2004). In addition, information provided on such independent websites has stronger effects on consumer response variables than information provided on corporate websites (Bickart and Schindler, 2001). Thus, we argue that product reviews published on independent opinion platforms have a stronger impact on consumers than product reviews that are published on retailer or producer websites because the content of the first type of reviews cannot be controlled by the retailer or producer.

In the next step, it is important to introduce the target variable with regard to which we examine effects of negative online product reviews. The considered target variable is consumer-based brand equity. Brand equity is the value added to a product or service by its associations with a brand name, design, and/or symbol which enhances the value of a product beyond its functional purpose and differentiates well-known from less known brands (e.g., Farquhar, 1989; Keller, 1993). More specifically, consumer-based brand equity corresponds to consumers' perceptions of a product's additional value that is generated by the brand name (Park and Srinivasan, 1994) and is based on associations with the brand which are activated in response to the brand name (Krishnan, 1996). These associations are composed of perceived brand attributes and brand benefits such as product quality (Keller and Lehmann, 2006; Krishnan, 1996) and are gathered from a variety of brand information sources such as WOM communication (Krishnan, 1996).

We chose consumer-based brand equity as response variable because brand equity is one of the most important marketing concepts in both research and practice (Srinivasan et al., 2005). From a research perspective, brand equity is an important construct to study because it is associated with key benefits for both firms as well as consumers (Farquhar, 1989; Keller and Lehmann, 2006). Especially due to growing competition between companies, the value of a brand has become more and more the focus of interest (Aaker, 1992; Agarwal and Rao, 1996; Keller and Lehmann, 2006). From a practical perspective, it is interesting to get further insights in consumer-based brand equity because marketing managers expend significant resources to build and maintain brand equity. Especially with regard to effects of negative online product reviews, it is interesting to analyze effects on brand equity in terms of brand equity dilution because previous research suggests that a dynamic and interactive medium such as the Internet can challenge even initially stable brand positions (Chiou and Cheng, 2003).

Thus, the objective of the present research is to develop an understanding of the impact of negative online product reviews on consumer-based brand equity that results in brand equity dilution, and to test such effects in a new empirical study. Our paper adds to the existing body of research because no studies on the proposed link between negative online product reviews and the dilution of consumer-based brand equity exist. While some researchers have proposed models for the impact of online product reviews on attitudes and behavioral intentions, consumer-based brand equity has not yet been considered as a focal construct. In more detail, this paper makes a contribution by

building up a new theoretical framework through combining research on WOM communication effects with previous studies on brand equity dilution. Furthermore, by identifying brand equity dilution through a before–after measurement in our study, we fill a lack of research with regard to the measurement of effects of negative online product reviews. Several studies that analyzed effects of negative online WOM communication failed to use a before–after measurement of the dependent variable which means that the real effect on consumer response variables cannot be captured.

In addition to addressing researchers, our paper addresses marketers by offering insights into possible negative consequences of consumers' online product reviews for companies. Moreover, our research is also relevant for retailers because negative online reviews on specific products might also have negative effects on the image of a retailer who is offering these products. Furthermore, a look at opinion platforms shows that online reviews are not only on products but also on retailer chains. Thus, the retailers' equity might also be directly affected.

## 2. Empirical background

As no studies exist on the link between online product reviews and brand equity, we will provide separate literature reviews of the research streams on brand equity and effects of online product reviews.

### 2.1. Previous research on brand equity dilution

Antecedents of consumer-based brand equity dilution have basically been examined in three thematic contexts. In the field of research on brand extensions, many studies exist on dilution of consumer-based brand equity. Due to the large number of studies, we only give an overview of the studies that are most relevant with regard to dilution of consumer-based brand equity. The rationale behind the use of brand extension strategies is the notion that brand associations and attitudes are transferred from a well-established core brand to a new extension product (Aaker and Keller, 1990). Loken and Roedder John (1993), Milberg et al. (1997), and Roedder John et al. (1998) examined situations in which brand extensions are more or less likely to dilute favorable attribute beliefs consumers have learned to associate with the family brand name. The results of their studies indicate that brand equity dilution effects occur when brand extension attributes are inconsistent with family brand beliefs.

Another thematic area is retailing. To our knowledge, only one study exists in this area. Buchanan et al. (1999) examined whether the consumer-based equity of an established brand can be influenced by context, in particular, by the retailer's presentation of the brand among competitor brands. The authors found that context cues such as the retailer's display structure can destroy perceived brand equity.

A third thematic field refers to product-harm crises. Dawar and Pillutla (2000) analyzed the impact of a company's response in a crisis situation (e.g., caused by harmful substances in products, e.g., glass fragments in instant coffee canisters, rusted food cans) on consumer-based brand equity. The results of their studies show that a company's crisis situation can cause a significant loss of consumer-based brand equity.

### 2.2. Previous research on the effects of online product reviews

Below, we report studies that focus on dependent variables that are closely related to the concept of consumer-based equity.

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