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## Research on The Impact of Online Word-of-Mouth on Enterprise Pricing Decisions

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**Abstract:** With the rapid development of the Internet and e-commerce, consumers are no longer passive recipients of product information provided by merchants but are placed as participants in the release of product content, thus giving rise to the online word-of-mouth sales model. In view of this, this paper will explore the impact of online word-of-mouth and its updates on consumers' purchase decisions and enterprises' pricing decisions from the following two aspects: transfer costs and prior demand caused by consumers' behavior of pursuing utility maximization; individual behavioral characteristics of consumers including strategic consumption and preference differences.

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**Keywords:** Online word-of-mouth, Pricing decision, Strategic consumers, Switching cost, Consumer preference

### 1. Introduction

Internet word of mouth marketing refers to the method by which enterprises carry out marketing activities with word-of-mouth publicity as the core, and strive to make consumer groups have good interaction among relatives and friends, so as to pass out the enterprise's own commodity information and brand value. In order to achieve brand exposure, commodity trading, access to consumer satisfaction and loyalty, improve the purpose of enterprise brand image. The main advantages of this marketing method are high credibility and high success rate. From the perspective of the company's marketing and marketing practice, network word-of-mouth marketing refers to the marketing methods and processes that the company uses various reasonable means, including rewards, discount publicity, etc., to cause consumer groups to talk about and communicate with their goods, services and the overall image of the company, so as to encourage consumer groups to promote and introduce to relatives and friends around.

Internet word-of-mouth marketing is one of the common promotion strategies for companies to carry out marketing publicity in recent years, which is crucial to the operation and development of the company, and it also determines how the company can carry out lasting operation and obtain the highest profit. The key of network word of mouth is to promote the quality of products and services, its purpose is to establish loyal consumer groups, establish a good image of the company's brand, so as to make full use of the communication value of loyal consumer groups to obtain the company's visibility and reputation, so network

When consumers make use of online word of mouth to make purchase decisions, they are also the shapers of online word of mouth. Through the platform, they comment on the quality, attributes and performance of products according to their own real experience and feelings. Due to the participation of consumers, the traditional sales model has been transformed into the network word-of-mouth sales model (as shown in Figure 1). In the traditional sales model, merchants provide information about products, and consumers make purchase decisions based on it. In this mode, due to the information asymmetry between merchants and consumers, consumers have a single channel to obtain product information, and can only learn about products from product introductions or advertising published by merchants, and it is difficult to know the real product information and



other consumers' consumption experience. For merchants, it is also impossible to get quality feedback from consumers after product experience. Under the new network word-of-mouth marketing model, most online retail websites (such as Taobao, Jingdong, Pinduoduo, etc.) have established online review platforms, and consumers can write online word-of-mouth after purchase and share consumption experience. Therefore, consumers have gradually transformed from passive product recipients to active participants, with more consumption autonomy and product discourse power.

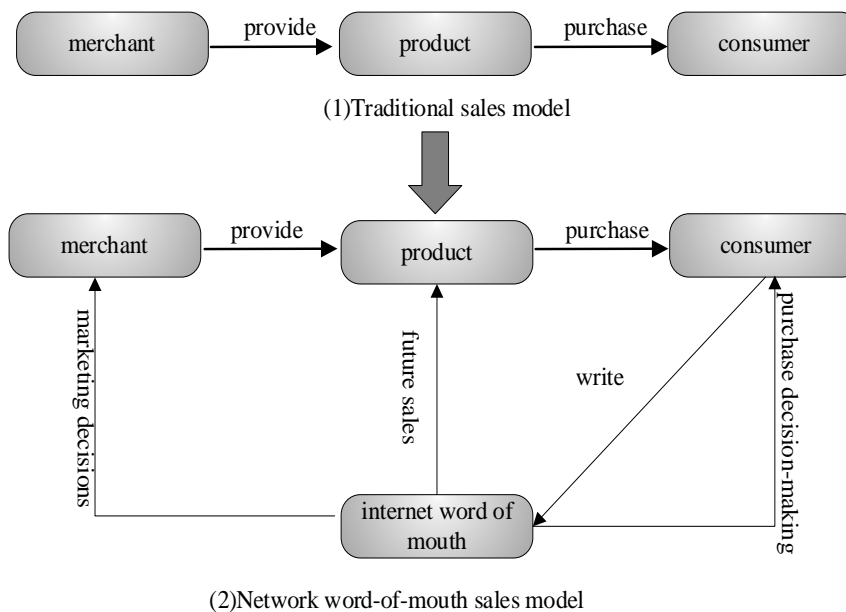


Figure 1: Traditional sales model to internet word-of-mouth sales model

## 2. The Influence of Internet Word-Of-Mouth on Corporate and Consumer Decision-Making

On the one hand, based on the network word-of-mouth effect, consumers will generate additional value-added in the utility of purchasing products, thus affecting consumers' purchasing decisions. At the same time, enterprises will make strategic pricing according to consumers' purchasing decisions. On the other hand, because online word-of-mouth is published by consumers who have experienced the product, it has higher credibility [1], which can greatly reduce the information asymmetry between merchants and consumers, thus enabling consumers to have a more real understanding of product quality, that is, to update their initial belief in product quality. This kind of update caused by Internet word-of-mouth will also affect the decision-making judgment of consumers and enterprises.

In the process of making purchase decisions, consumers mainly pursue utility maximization. In addition, consumers' individual behavior characteristics also play a crucial role. Therefore, in the internal mechanism of online word-of-mouth communication, The behavioral attributes of consumers (including utility-maximizing behavior and individual behavior characteristics) will have an extremely important impact on the network word-of-mouth effect and the update of product quality [2].

Pricing decision is a very important part of the marketing mix, price is the key factor to determine the success of the transaction, but also the most difficult to determine the factor, and the goal of corporate pricing is to promote sales and increase profits. In the decision-making process of pricing, enterprises should not only consider the compensation of costs, but also consider the acceptance of prices by consumers, so the pricing strategy has the characteristics of joint decision-making by buyers and sellers. In addition, price is the most flexible factor in the marketing mix, which can respond sensitively to market demand.

## 3. The Influence of Consumers' Behavioral Attributes on Network Word-Of-Mouth Effect

On the one hand, the impact of product switching caused by consumers' pursuit of utility maximization and the resulting transfer cost on the network word-of-mouth communication mechanism. In the market, there are



usually new enterprises entering the market and competing with incumbent enterprises. For incumbent enterprises, monopoly pricing is transformed into competitive pricing. In order to maximize the profits of the whole cycle, the pricing decision in the monopoly stage should take into account its impact on the profits of the next stage. In the monopoly stage, purchased consumers will release online word of mouth on products, which will have a great impact on the purchase intention of non-purchased consumers. Therefore, the pricing decision of incumbent enterprises in the monopoly stage should consider the subsequent impact of online word of mouth in the competition stage, that is, the strategic pricing of the whole cycle. As a new face in the market, entering enterprises cannot make pricing decisions by means of online word of mouth. If consumers of incumbent enterprises in the monopoly stage switch to purchase products of entering enterprises in the competition stage, they will have to pay transfer costs. Therefore, in order to attract more consumers, entering enterprises will take transfer costs into consideration in pricing decisions to enhance their competitive advantages. Maximize profits. For consumers, due to the entry of new enterprises, there are more choices for purchasing decisions. For consumers who have purchased products, if they continue to choose the original products, they will gain the added value of product utility generated by the network word-of-mouth effect. If they switch to new products, they may have to pay a greater misallocation cost. It will pay a certain transfer cost, so this part of consumers will comprehensively consider the network reputation, mismatching cost and transfer cost, and make purchase decisions according to the maximization of their own utility. For consumers who do not buy at the monopoly stage, if they choose the products of incumbent enterprises, they will also gain the added value of network word-of-mouth effect in product utility, but they need to pay greater misallocation cost, while if they choose to enter the products of enterprises, they may only need to pay less misallocation cost and do not need to pay the transfer cost caused by switching products. However, they cannot gain the value-added effect of network word-of-mouth effect on product utility, and these consumers will weigh the cost of network word-of-mouth and mismatching to maximize their own utility and make purchase decisions. Therefore, it is of great significance to combine network word-of-mouth and transfer cost to explore its impact on pricing decisions of enterprises and purchasing decisions of consumers.

On the other hand, the influence of the individual characteristics of consumers' strategic purchasing behavior on the network word-of-mouth communication mechanism. Due to the existence of network word-of-mouth effect, consumers may consider future price changes when making current purchase decisions, and then may make a decision to postpone purchase, choose the right time and buy products at the lowest price according to network word-of-mouth effect, so as to maximize their utility. In the two-stage market entry model, consumers in the first stage will face three choices: in the first stage, they will buy the products of existing enterprises; The second stage to purchase the products of existing enterprises; The second stage of purchase into the enterprise product. Considering the pricing of the two enterprises and the network word-of-mouth effect of the incumbent enterprises, the strategic purchase decision is made. This kind of behavior, namely the strategic consumption behavior of consumers, directly affects the pricing decision of enterprises. Therefore, in the pricing decision of enterprises in the whole sales cycle, in addition to the consideration of their own profit maximization, the strategic purchase behavior of consumers is also an important factor that cannot be ignored. It is of great significance to explore how enterprises can actively respond to consumers' strategic behavior through strategic pricing.

#### **4. The Impact of Consumers' Behavioral Attributes on The Update of Network Word-Of-Mouth**

On the one hand, the impact of consumer demand caused by consumers' pursuit of utility maximization on the network word-of-mouth updating mechanism. The development of information technology (IT) and the Internet economy has made it easier to record and transmit consumer purchase information (such as past demand) and online word of mouth, which is not easily available in offline merchants. For example, in addition to product prices, online stores often display both consumer reviews/ratings and demand information. For stores that display only consumer review information (e.g., Amazon, Apple Store), the number of reviews can often be viewed as a proxy for sales. [3] The existing literature has established that consumers prefer products with good reviews/high ratings [4]. In addition, many empirical studies have shown that consumers tend to choose products with high demand [5]. Therefore, consumers can predict the real quality of the product through the early demand, and then combined with the online word-of-mouth value of the product in the market, they can



make further updates on the real quality of the product, and then use it as an important reference basis for purchase decisions, and enterprises will make pricing decisions accordingly. However, few studies have looked at the combined impact of online word of mouth and prior demand on businesses and consumers. More specifically, which information has a greater impact on consumers, Internet word-of-mouth or pre-demand information? In what market situations does this information matter? Can online word-of-mouth increase consumer demand? If so, under what conditions? When consumers rely heavily on prior demand information, how should enterprises respond optimally in terms of pricing and information strategy? When online word of mouth provides a lot of information, should high/low quality companies set higher/lower prices? Therefore, it is an important topic to explore how the update of product quality affects the decision of consumers and enterprises by combining the early demand of products with the Internet reputation.

On the other hand, the impact of individual characteristics of consumers' preference differences on the network word-of-mouth updating mechanism. The Internet and information technology provide consumers with new opportunities to publish online word-of-mouth of products [6], and word-of-mouth has become very important for consumers' purchase decisions and product sales [7]. The difference in consumers' preferences for product attribute information will also directly affect the updating mechanism of online word-of-mouth on product quality. For example, fans or loyal consumers who know all the attributes of a product can infer the expected quality of a product from the technical information disclosed by the seller without referring to the information of online word-of-mouth, while the general population who do not know all the attributes of a product can infer the expected quality of a product without referring to the information of online word-of-mouth. More from the network word of mouth to get product information, and update the quality of the product. In the face of online word-of-mouth information, sellers need to make a variety of important strategic decisions. For example, should sellers open up online word of mouth? If so, when is the best time to open? When online word of mouth emerges, should sellers adjust their disclosure strategies to best respond to the information created by consumers? What information should the seller disclose about the product for multiple product attributes? In order to better understand these issues, more research is urgently needed. Therefore, how to combine consumer preference differences with online word-of-mouth, and how to discuss the updating mechanism of product quality on corporate pricing and information disclosure strategies are also worthy of in-depth study.

## 5. Conclusion

Thus, it can be seen that how to make effective use of online word-of-mouth, combined with the behavioral characteristics of consumers, formulate appropriate pricing strategies, so as to achieve the purpose of profit, is an important issue facing enterprises in the context of "Internet +" transformation.

This paper provides countermeasures and suggestions for enterprises in the Internet environment how to use the network word-of-mouth information generated by the market to make optimal pricing and actively face the new products entering the market. First of all, with the development of the Internet, consumer comments provided by new media such as the Internet or mobile phones have become an important reference for consumers' purchase decisions. Operators should attach importance to the innovative operation of new media such as social media and mobile Internet, and promote consumers' comment sharing on products through advertising, price discrimination and other means. Secondly, enterprises can also effectively interfere with consumers' cognition of product effectiveness through the quantity and effect of online word-of-mouth. For example, dynamic strategic pricing can guide market demand in stages and enhance the market competitiveness of products after word-of-mouth promotion, so as to make marketing strategies more effective to achieve the purpose of increasing revenue. Finally, it is necessary to realize that the operation means of new media have two sides, and to carry out accurate operation according to the characteristics of consumer behavior, the quality, timeliness and intensity of word-of-mouth information, in order to achieve the expected effect.

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