How 5-star online customer reviews can backfire

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It may be counterintuitive, but the more positive online reviews a product gets may actually lead to a net negative profit for the retailer. That's the conclusion of new research by a team of marketing experts from a Dutch and a German university that will be published in the September 2016 issue of the *Journal of Retailing*.

In "To Keep or Not to Keep: Effects of Online Customer Reviews on Product Returns," Professor Tammo H.A. Bijmolt and PhD candidate Alec Minnema, of the University of Groningen, and Professors Sonja Gensler and Thorsten Wiesel of the University of Münster, analyze more than two years of sales data from a major European online retailer - a total of almost 9 million page views and 631,063 purchase transactions for 2,164 different products in the electronics and furniture categories. The information-rich dataset enabled them to examine the key characteristics of online customer [reviews](#), or OCRs, available at the moment of purchase and return decisions over a relatively long term. Whether the reviews were positive or negative and the volume of each type were the key factors in the authors' calculations.

For retailers, one of the down sides of online selling is its high return rate - an estimated 30 percent, costing retailers between $6 and $18 per return. The authors reason that a preponderance of positive reviews about a product can raise customers' expectations and influence them to make a purchase that, when it arrives and is tested, disappoints them more than it might have had they had the opportunity to physically examine it.

Manipulating the data through a series of simulations, the authors find that a lot of positive reviews can raise sales, but at the same time, if there aren't less glowing reviews to balance the raves, lead to more disappointment and hence more returns. This effect is stronger for "novice" buyers, they write, and for cheaper products. The result is a higher total return cost - offsetting the gain in sales - and thus lower profits.

"Our findings encourage retailers to get a large review base that adequately reflects the performances of the product," they conclude. "Retailers thus should actively stimulate customers to write a review after purchase...." However, they emphasize that for the retailer's own good, the reviews should fairly represent customers' experience of the product, negative as well as positive.

More information: Alec Minnema et al, To Keep or Not to Keep: Effects of Online Customer Reviews on Product Returns, *Journal of Retailing* (2016). DOI: 10.1016/j.jretai.2016.03.001

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