Negative reviews boost sales

December 11 2020

Credit: CC0 Public Domain

Aleksei Smirnov, Assistant Professor, HSE University Faculty of Economic Sciences, and Egor Starkov, Assistant Professor, University of Copenhagen, have constructed a mathematical model that explains why it is advantageous for sellers not to delete negative reviews of their products. A study detailing this conclusion has been accepted for publication in *The American Economic Journal: Microeconomics*.

Empirical studies have indicated that consumers are more likely to buy a product with a rating slightly below a perfect one rather than a perfect one. Using game theory, the researchers analyzed how negative reviews affect sales.

The researchers' model, which they presented in their paper "Bad News Turned Good: Reversal under Censorship," involves two sets of participants: sellers, who know the true quality of the products they are selling and can selectively publish reviews about it, and buyers, who do not know a product's quality and can be categorized as either 'naïve' or 'rational." Rational buyers use all available information to determine the quality of a product, while naïve buyers tend to take product reviews at face value and do not make any further inference.

"If there were only naïve consumers in the market, sellers would leave only perfect reviews, because the naïve consumers believe what they read and there is no reason to disenchant them with negative reviews," Aleksei Smirnov explains.

However, in reality there are both naïve and rational consumers in the market, and the situation is as follows. Good reviews are perceived positively by everyone. Bad reviews are bad for the naïve consumers, but for the rational consumers these reviews actually increase their confidence in the quality of a product. Why? Because, the authors say, every bad review weakens sales among naïve consumers. Therefore, only a seller of a high quality product will be confident enough to publish it—they can be certain that in the future their product will garner positive feedback, and sales among rational consumers will compensate for any losses among naïve consumers.

Thus, bad reviews become a positive signal to rational consumers, and, by attracting more rational consumers, sellers boost sales.

Examples where a seller is not only not shy about negative feedback but, on the contrary, flaunts it, can be found literally on the street. For example, roadside advertising billboards for digitec, the largest electronics retailer in Switzerland, feature poor customer reviews of their products. The authors of the study do not have data on how this advertising campaign has affected digitec's profits, but given that the billboards have been around for years, it can be assumed that this marketing move has been quite successful.

More information: Aleksei Smirnov and Egor Starkov. Bad News Turned Good: Reversal under Censorship. *The American Economic Journal: Microeconomics*. (2020) DOI: 10.1257/mic.20190379

Provided by National Research University Higher School of Economics