The Economic Values of Online Reviews: An Empirical Analysis of Dianping.com

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Abstract

In this paper, we investigate how consumers learn about quality and cost of restaurants from reading online reviews, using a unique dataset from Dianping.com, a leading Chinese website providing user-generated reviews. The learning models proposed in this study have two novel features: (1) Consumers update not only the expectation but also the variance of multiple product attributes; (2) consumers distinguish the informational values of different reviews, depending on the information provided from the website for each review. Estimation results help us to construct a measure of the economic value for both consumers and restaurants. Our results provide useful insights in helping online review websites to design website features to facilitate consumer learning and therefore generate higher traffic and advertising revenue.