

MISQ Archivist

Herding and Social Media Word-of-Mouth: Evidence from Groupon

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Abstract

Modern online retailing practices provide consumers with new types of real-time information that can potentially increase demand. In particular, showing sales information to a customer can increase certainty about product quality, inducing consumers to herd. This effect can be particularly salient for experience goods due to their quality being inherently highly uncertain. Social media word-of-mouth (WOM) can increase product awareness as product information spreads via social media, increasing demand directly while amplifying existing quality signals such as past sales. This study examines the mechanisms behind the strategy of facilitating herding and the strategy of integrating social media platforms to understand the potential complementarities between the two strategies. We conduct empirical analysis using data from Groupon.com, which sells goods in a fast cycle format of “daily deals.” We find that facilitating herding and integrating social media platforms are complements that generate sales, supporting the idea that it is beneficial to combine the two strategies on social media platforms. Furthermore, we find that herding is more salient for experience goods, consistent with our hypothesized mechanisms, while the effect of social media WOM is similar for experience goods and search goods.

Keywords: Herding, word-of-mouth, social media, interaction effect, complementarity